INDUSTRY INNOVATORS

Bernard M. Fauber
K mart

Sam Walton
Wal-Mart

Charles Lazarus
Toys "R" Us

John Kilmartin
Mervyn's

Harold Frank
Bradlees

Sol Price
The Price Club

Bernard Marcus
Home Depot

Arthur Frankel
Pic 'n Save

Robert M. Haft
Crown Books

Phil Wilber
Drug Emporium

They all had a vision, and the drive, determination and tenacity to succeed. Phil Wilber, founder of Drug Emporium, says, "We succeed because we never, never, never, never, never give up." The same could be said of all 10 of these retailers, and more. They share a single-mindedness of purpose and an uncanny feel for what the customer wants. This has produced some of the most wildly successful retail companies the country has ever seen—and a host of imitators. Together they influence some $30 billion in consumer spending; individually, their ideas about mass merchandising have changed forever the shape of the American marketplace.

'Think Differently'—Fauber's Message For K mart

K mart's Profit Turnaround Began in '82

Fiscal Year	Sales (billions)	Net Earnings (millions)	Return on Assets	Total K mart Stores
1978	$11.7	$344	7.7%	1,496
1979	12.7	358	7.4	1,688
1980	14.2	261	4.6	1,885
1981	16.5	220	3.6	2,055
1982	16.8	262	3.9	2,117
1983	18.6	492	6.7	2,160
1984*	14.2*	295*	—	2,165

*Nine months

Source: K mart annual reports

Bernard M. Fauber

TROY, Mich. — Think differently.

The message started appearing on the walls and desks of K mart executives after Bernard Fauber, 62, became chairman four years ago.

Fauber himself is already doing that, working to replace two bedrock company operating principles—growth by unit expansion and unswerving price leadership—with two for the 80's: improved return on assets and diversification.

To redirect the company, he's taken on an even more herculean task—to change the attitude of the company's 288,000 employees. Don't dwell on what we've done right in the past has become something of a company slogan.

There's plenty of evidence—on both a large and small scale—that he's completely serious about overhauling the corporate culture.

Since becoming chairman, corporate store expansion plans have been slashed from as many as 200 stores a year to 21 in 1984; for the first time in the company's history, dozens of poor-performing sites have been closed; "shop" concepts and a heavy emphasis on brand names have been introduced; a computerized electronic ordering system that improved in-stocks and cut replenishment time by 50% has been installed.

Where the company had only a few subsidiary names in its corporate lexicon, since 1980 it's been greatly expanded to include Waldenbooks, Designer Depot, Garment Rack, Accents, Astra, Super Jupe and most recently Builders Square as well as the more tenured Jupiter stores, Furr's Cafeterias and Bishop Buffets.

Plans Aired

By 1990, company officials have said, these new ventures could generate as much as 25% of corporate revenues, up from less than 5% in 1980. By 1988, chain projections call for K mart to reach the $25 billion mark. Sales, for the most recently completed fiscal year, totaled $18.6 billion.

In fact, results to date have been strong enough to allow Fauber to redraw his targets. Last year sales reflected an 11% chainwide square increase and an 88% rise in net earnings. Earnings per square foot topped $4, more than doubling the 1981 level of $1.90.

The goal for return on assets in 1988 was raised from 7.8% set last year to 9%. This reflects the big jump in the percentage from 3.9% in 1982 to 6.7% in 1983.

Equally as important, under Fauber's direction, K mart has gained a new sense of purpose that has revitalized management. Top management's search for and receptivity to new merchandising ideas have stirred buyers' creativity, company insiders report.

While not everyone has thrived under the new direction—only two of the company's top 10 executives in 1979 continue in their posts today, and some store managers bitterly refer to the corporate plane bearing brass from Troy as the "grim reaper"—headquarters staffers depict Fauber as a convincing presenter of ideas, decisive, a strong motivator and profoundly bright about what makes K mart tick. They also note that his willingness to experiment and commit capital to new ventures, like $90 million to acquire Home Centers of America, has energized K mart all the way to the district management level.

Colleagues and employees agree Fauber's manner is low-key, unchanged since he assumed the chairman's role. He attends merchandising meetings regularly, eats in the company cafeteria and stops for impromptu conversations in the hallway.

"He's respectful; I've never felt him flashing his chairman of the board badge, even when people voice a dissenting opinion," one senior executive noted.

Wall Street, too, has been impressed, and not just by the numbers. "He recognizes limitations and gets more mileage by introducing change slowly and steadily," noted Stuart Robbins, a retail stock analyst with Donaldson, Lufkin & Jenrette.

When it comes to his agenda for strengthening the company, however, it is generally acknowledged that "he's a tough guy to oppose." "A killer," in the words of another topsider.

There is much top-level support for the new agenda, however. A subscriber to K mart's longstanding philosophy and practice of hiring from within, Fauber has assembled an executive suite team that includes many of the executives who worked with him on the West Coast, and who were responsible for taking that division from 20 stores in 1966 to 350 by 1977: Samuel Leftwich, 57, president; Larry Parkin, 50, chairman and ceo, K mart Apparel, and Frederick M. Stevens, 48, executive vp, specialty retailing.

While some critics suggest that Fauber hasn't made the best possible choice in every case, and that it could ultimately cost the chain some of the productivity gains it is striving for, others suggest that the teamwork among the players more than compensates for any individuals' shortcomings.

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Fauber Isn't Afraid to Delegate

Chairman Bernard Fauber's agenda to diversify K mart's future included his spearheading this fall's acquisition of Builders Square warehouse home centers. *(DSN photo)*

(Continued from page 17)

As Carl Gerstacker, the retired Dow Chemical chairman and K mart board member noted: "If a decision became glaring and hurtful to the company, Ben would take care of it."

K mart today is far more productive than when Fauber inherited it in 1980.

Throughout the 70's, K mart relied on its vast managerial pool, real estate savvy and financial muscle to mass produce as many as 200 cookie-cutter stores a year, and to generate industry-pacesetting 20%-plus annual sales gains almost without interruption.

By 1980, the pace had been slowed by a combination of forces including a recessionary economy and double-digit inflation. While chainwide sales rose 11.6% in 1980, most of that came from 173 new stores; earnings plunged 27.2% that year. Turns collapsed to below four in 1980, down from a mid-70's peak of eight.

Within weeks in office, Fauber set out to improve existing store productivity by introducing more name brands in apparel and re-examining the chain's home improvement centers. These were part of his plan to develop new departments that could quickly impact profits, particularly in major market stores. Changes were implemented to help K mart raise average transaction size and recapture market share being lost to more fashion-forward specialty discounters and regional upscalers.

New Moves

Also in 1980, Fauber launched a new K mart prototype marked by a race track aisle, better use of cubic space, improved adjacencies and department store fixturing.

Fauber also broke with the past when he began sending K mart merchandisers into the field to visit and meet with people at other chains—mass merchants, specialists and full-line discounters—to glean ideas. At the time, shoppers regarded K mart as a price leader but poor quality merchant. The freer-spending family customers were buying mostly staples at K mart, and Fauber wanted them to shop more departments while in the stores.

For the first time in recent years, Fauber also hired an outside merchandising consultant, Steven Herman, in order to "force buyers to think differently about their assortments and displays," said a former K mart merchandiser who has left to participate in another chain's turnaround.

The outside force was needed, he contended, because as late as 1982, Herman still heard "a lot of 'We're K mart, we don't have to change.' That attitude had to be defeated."

"Fauber and [executive vp, merchandising and subsidiaries Norman] Milley, 60, locked their minds in the open position, and had the guts to swallow changes. They played with six different gondola heights, 8-ft.-high wall treatments and shop concepts, and divorced themselves from K mart's obsession with price," Herman said, describing the process which saw the chain launch six key departmental prototypes that will be placed in virtually every K mart store by 1987.

"They gritted their teeth and did it. They knew the ultimate test would be consumer reactions," Herman added.

To help implement these changes, Fauber created five new field manager posts: regional merchandise coordinators who report to a vp at Troy.

Setup Is Refined

Fauber also set out to improve communications between the merchandising and financial staffs. His aim: get buyers to better understand the broader meaning of their buying decisions, like the dollar impact of improving turns by a quarter of a per cent or carrying less inventory, a financial executive told *DSN*.

He also set precedent by closing eight laggard K marts and 66 Kresge and Jupiter stores in 1982. Fauber also directed the elimination of 361 automotive service departments that year, and another 17 K marts in 1983.

"Fauber put K mart's ego on the line with that. He was the first courageous enough to say that K mart needed change, that we weren't doing everything right," said the former K mart merchandiser.

He's also not afraid to delegate. After spending $90 million this year to buy Home Centers of America (now Builders Square), he turned it over to founder, and now chain president, Frank Denny. "He reviewed two years of my five-year financial plan, and told me: 'That's your road map, go do it,'" Denny said, adding that Fauber felt he could better take their pulse by visiting stores.

Fauber will delegate only after he's comfortable with a decision; Fauber was heavily involved in the acquisition effort, knew the company well and then was able to let go a bit, explained several top K mart executives.

Similarly, he was deeply involved with K mart's remerchandising. He and Milley met together, often and for months, before he loosened his hold, said an executive involved in the ef-

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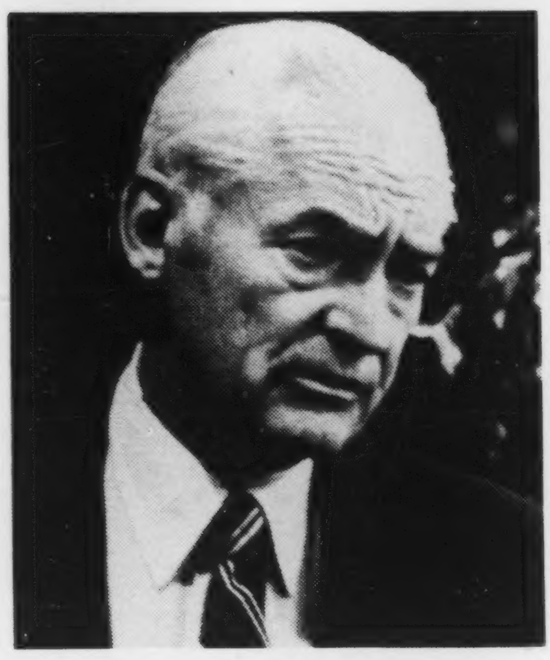
Walton Again Faces Problem of Picking a Successor



> “I started out with one store and it did well, so it was a challenge to see if I could do more.”
>
> *—Sam Walton*

BENTONVILLE, Ark. — After building Wal-Mart from a 16,000-sq.-ft. store in the nearby small Ozark Mountain community of Rogers into a $6 billion-plus discounter in less than two dozen years, Sam Walton, three months shy of his 67th birthday, faces the challenge of picking a successor to guard the crown jewels.

The 758-store company (747 Wal-Marts and 11 Sam's Wholesale clubs) is at the heart of a business empire—Walton Enterprises Inc.—that this year put Walton in the No. 2 spot on the *Forbes Magazine* Four Hundred list of richest men in America, worth $2.15 billion.

In powering Wal-Mart into the fourth largest retailer in volume in the nation, Walton brought discounting, which started out in big-city and suburban markets, into rural communities in the Midwest and South. Wal-Mart has served as a model for such former variety store companies as Duckwall and Danner's in revamping their businesses into more successful discount store chains.

The original Rogers store, which was launched with a $75,000 investment in October 1962 and had about $262,000 in sales in its first year, was the outgrowth of a Ben Franklin variety store franchise begun 15 years earlier by Sam Walton, his wife, Helen, and his brother, James L. (Bud) Walton. But Sam Walton is the recognized and acknowledged father of the dynamic Wal-Mart business by dint of his retail acumen, charisma and personal drive.

One former executive succinctly summed it up: “The truth is that Sam Walton flatout calls the shots, regardless of anyone else's authority.”

This bare fact has long triggered speculation on who could or would succeed Walton, who has successfully battled hairy cell leukemia, a rare disease for the past two-and-a-half years.

Even 10 years ago, in 1975, the company was already a hot discounter, with over 100 stores and $236.2 million in sales. Looming as a do-able vision in Walton's plans for the company: $1 billion in volume by the end of the decade.

Perhaps Walton's first try to open the way for a successor came that year, when he stepped aside as board chairman and chief executive officer in favor of Ronald Mayer, who was promoted from president. But, two years later, Walton, who was officially listed as chairman, executive committee, returned to his former posts to again directly command Wal-Mart as Mayer left the discounter to head up troubled Ayr-Way (which was eventually acquired by Target).

In another try, Walton in November 1979 took a leave of absence—assertedly to show Wall Street and others that Wal-Mart could run without him—leaving the company in the hands of president and chief operating officer, Jack Shewmaker. But Walton was back within four months; his son, S. Robson Walton, then a senior vice president and company counsel, acknowledged “he's been around most of the time.”

Knowledgeable trade observers feel the succession question was answered six months ago when Walton, in an unusual yet typically striking move, swapped the job responsibilities and titles of Shewmaker and David Glass, then vice chairman and chief financial officer. Glass took over as president and coo and gave up his previous posts to Shewmaker.

Walton's search for a successor outside of his immediate family is typical of the situation of almost all retailing dynasties; with some notable exceptions such as the case of Sol Price and his son, Robert, members of founders' families have sought to make their mark in enterprises other than retailing.

In many ways Glass is seen as being similar to Walton, trade observers noted. Glass's quiet but strong personality, his great influence in Wal-Mart's operations, particularly financial, and his merchandising experience as general manager of his family-owned Crank Drug (a company that was later acquired by another retailer) are akin to Walton's drive and career.

Another Consideration

One source cited an intangible factor as the reason “Sam feels confident that Glass can do the job: Glass is more visionary. Sam is looking for a born motivator, a leader and someone who looks to the future, and Glass better fits this profile.”

Walton himself is a unique combination of the visionary and the practical, traits that mark his entire retailing career.

In 1945, after serving in the U.S. Army, he and his brother purchased a Ben Franklin franchise in Newport, Ark. Five years later, when the lease on that store was lost, he moved to Bentonville in northwest Arkansas. He felt the area, and similar rural communities, would grow and offer his small, limited-capital company a better opportunity than major cities that were attracting the big and highly financed retailers.

In one of his rare press interviews a few years ago in the Little Rock, Ark., *Gazette*, he recalled that “I didn't sit down one day and decide that I was going to put a bunch of discount department stores in small towns and set a goal to have a billion-dollar company someday.

“I started out with one store and it did well, so it was a challenge to see if I could do well with a few more. When we did well with them, we opened a few more. We're still going, and we'll keep going as long as we're successful.”

Noting he “was doing all right with the one store,” he said, “I could have been satisfied with that, made a good living and had a lot more free time.”

But, one store wasn't enough.

Walton's own insight into why is simple: “Some people are

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Walton: Success Due to Making Employees 'Partners'

(Continued from page 22)

just driven toward challenges, to be as successful as they can be. I don't know what makes some people that way while others aren't, but did you even stop to think what our country would be if some people weren't like that? That's what our country is all about—opportunity and hard work."

He touched on that vision—and much more—when he accepted an honorary Doctor of Laws degree this past May from his alma mater, the University of Missouri-Columbia.

"I guess I couldn't have gone to the University had it not been for my family making the sacrifices at that time like many of yours have, to get you through school and do the things for us."

Wal-Mart's success, he said "is a simple approach, in my opinion, that will help all of you and our greater country to sustain our free enterprise, capitalistic system. We've got to involve our employees, we've got to communicate with our employees, we've got to make partners out of them day by day and do it in a meaningful way. And it works.

"It's a matter of sharing these profits with them to a greater degree . . . If you can be an entrepreneur, if you can start a business of your own, there will be untold opportunities day after day in all of your fields. That's tremendous. But if you employ people, make partners of them, communicate with them, let them know day after day that they're important and whether they measure and reach their goals or whether they don't, praise them. And, of course, reprimand them when you need to."

The Wal-Mart $ucce$$ $tory

Year[a]	Sales (millions)	Net Income (millions)	No. of Stores
1971	$ 44.3	$ 1.7	25
1975	236.2	6.4	100
1980	1,248.2	41.2	276
1981	1,643.2	55.7	330
1982	2,445.0	82.8	491
1983	3,376.3	124.1	551
1984	4,667.0	196.2	642
1985[b]	4,326.9	161.4	733[c]

(a) Fiscal year ends Jan. 31. (b) Nine months ended Oct. 31. (c) Includes 726 Wal-Marts and seven Sam's Wholesale.

Source: Annual reports.

The honorary degree isn't the only honor Walton has received.

In Bentonville itself, last year U.S. Highway 71 Bypass was designated Walton Boulevard; the junior high school was named Sam. M. Walton Junior High School, and the new local children's center was named the Helen R. Walton Children's Center to honor his wife who played a major role in its development.

The renaming took place at a Sam and Helen Walton Appreciation Day.

Walton's emphasis on communicating with his employees reflects his experience in the early 1940's when he served a short time as a management trainee at J. C. Penney and was "profoundly influenced" by that firm's efforts.

By the early 1960's, Walton's retailing business was so successful that it was among the nation's leading Ben Franklin operators.

But he saw major changes ahead in retailing, with variety stores losing more and more business to the up-and-coming discount industry. That trend was directly brought home to Walton as the Gibson franchise discount store chain opened a store in Fayetteville, Ark., where Walton had a Ben Franklin.

He tried to interest Ben Franklin executives in Chicago, that company's headquarters, in going into discounting, but they weren't interested. So he started his own discount store.

When he got into discounting, Walton made it his business to learn from the best and most successful companies like K mart, along with hiring away the best people to help him run Wal-Mart—moves that still upset competitors.

Along with this, he was always ready to use his own retailing knowledge—his seat-of-the-pants practical experience—to adjust and change to be a better, sharper discounter than his competitors.

One source noted that Walton, during Wal-Mart's early days, closely examined K mart, using the discounter's mix as a model, and learning how to buy direct for the best possible prices, rather than relying on wholesalers as was the case with Ben Franklin's buying.

Experienced managers who knew how to operate the larger-size Wal-Marts were hired from other retailers to run the new discount chain's first few units. To get the best from the managers, he gave them percentage deals based on their store's profits.

When Walton sees something new, he makes his views known. A few years ago, when wide-mouth insulation bottles first came on the scene, he saw the product in a market before it was offered to Wal-Mart.

When a Wal-Mart supplier didn't have the item, he told the salesman the discounter would have to get it from another manufacturer because it would become a good item.

Sharing profits and involving employees were factors that enabled Wal-Mart to be favorably cited in such books as *The 100 Best Companies to Work for in America* and *In Search of Excellence*.

While Wal-Mart's low wage rates and small Christmas bonus for part-time employees received poor grades, its stock-purchase and profit-sharing programs scored high in *The 100 Best Companies*.

In Search of Excellence noted that "Walton, quite simply, cares about his employees. In fact, all his managers, at his insistence, wear buttons that say, 'We Care About Our People.'"

In return for the profit-sharing and stock-purchase programs, Walton drives his company employees as hard as he drives himself, including holding regular management meetings starting at 7:30 a.m. on Saturday. The stores aren't exempt from his close scrutiny: he visits them regularly using the company's plane to reach anywhere within the 22 states where there are Wal-Marts.

As one executive said a few years ago: "You either love the Walton style or hate it; there's nothing in between."

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Kilmartin's Dream—to Go National—Becoming Reality

John F. Kilmartin, chairman and ceo of Mervyn's, has led the six-year Dayton Hudson division through the transition from a regional retailer to a fast-growing, potentially national specialty operation.

HAYWARD, Calif. — Two years ago John F. Kilmartin dubbed 1984 "the pivotal year" for Mervyn's, the specialty soft lines and home fashion chain he chairs.

That would be the year Mervyn's would become a two-divisional retail operation with a second merchandising staff set up in Dallas to run the chain's growing number of south central stores.

It would be the year, Kilmartin, known as Jack, would see his 19-year mission at Mervyn's approach fruition. We, along with other longtime Mervyn's family members and its six-year parent Dayton Hudson, would test their shared conviction that Mervyn's can work as a national chain.

The questions to be answered: Could Kilmartin successfully clone the customer-driven corporate culture he had fostered since 1966 when the chain had three stores and which kept the California merchandising staff tightly in-sync with its shoppers' wants? Could that Texas-based staff, headed by other Mervyn's veterans, adapt to new ethnic shoppers and demographic considerations?

Earlier this year Kilmartin announced the verdict at Dayton Hudson's annual meeting: Results from the Texas stores and the division which spun off in December of '83 "confirm our belief that Mervyn's format is transportable."

Between 1985 and 1989 Dayton Hudson will fund 142 more Mervyn's stores, accelerating the chain's growth to an average of 28 openings a year. Already operating 126 units with volume edging toward $2 billion for this year, Mervyn's will next year push into New Orleans and tackle two more Texas markets—San Antonio and Fort Worth.

By the end of the decade Mervyn's south central region will include stores in Arkansas and Oklahoma as well as Texas and Louisiana. The chain will also invade the eastern Rocky Mountain region and Atlanta by the end of 1987, Kilmartin revealed last month.

As Mervyn's expands eastward, stock analysts who follow the chain expect a third division to open some time around 1989.

Successful thrusts into new markets combined with average annual sales gains of 28% over the past five years have attracted the watchful eye of other value-oriented soft lines merchants. As Mervyn's expansion accelerates, competition from Sears, Ward and upscale discounters for the middle-tier soft lines business is heating up for Mervyn's.

Already in Chicago, Federated is imitating the Mervyn's formula with its own specialty store: Mainstreet, a new chain unveiled just last month.

The second highest volume producer at Dayton Hudson, Mervyn's is one of the four fastest-growing specialty retail chains in the country, according to an analysts report prepared by the William Blair company, Chicago. The report noted the ceo's post at Mervyn's is now as important as the president and vice chairman positions at Dayton Hudson.

Jack Kilmartin, 63, described by his associates as "laid back," has held the chairman/ceo post at Mervyn's for the past five years.

The plan to make Mervyn's a national chain was set in motion in 1978 when founder Mervyn Morris merged his then 50-unit chain with Dayton Hudson. But it was Kilmartin, who also made his mark on the chain's merchandising position starting in the late 60's, who steered the company through the transition from a regional to a multidivisional operation.

With his company clearly established as a growth-oriented division of a large retail corporation, Morris resigned in 1979, calling his mission accom-

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Mervyn's Volume, Profits, Store Count Keep Increasing

Year	Sales (millions)	Operating profits (millions)	Store Count	No. of States	Highlights
1978	$ 479.5	$ 44.5	51	4	Merged with Dayton Hudson in May. Entered Arizona and New Mexico. (Was already in California and Nevada.)
1979	655.9	68.6	60	5	Kilmartin named chairman. Entered Oregon with 4 in Portland.
1980	826.9	76.3	69	6	Entered Utah with 4 in Salt Lake City.
1981	1,062.3	119.6	80	8	Entered Washington (Vancouver) and Texas (El Paso).
1982	1,335.8	152.3	92	8	Entered Tucson and Yuma, Ariz., and Amarillo, Tex.
1983	1,688.9	184.5	109	9	Entered Colorado with 1 in Grand Junction; added 5 in Dallas, 2 in Austin. Opened Plano, Tex., division.
1984*	1,386.4		126	9	Opened 8 in Houston, 3 in Seattle.

**9 mos. (February-October)*

Source: DSN *research.*

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Kilmartin Sees to It That Promos Remain the Linchpin

(Continued from page 25)

plished.

Kilmartin, who had rallied buyers around the Mervyn's merchandising philosophy for 13 years, who had unpacked boxes with them in preparation for store openings when he was president and who had shopped store sites alongside Morris, took the helm when Morris left.

Thriving under the laissez-faire supervision of Dayton Hudson, Kilmartin held fast to the sharply focused merchandising approach he had nurtured since joining the chain. By seeing that very little changed, he kept rapid expansion from destroying the entrepreneurial atmosphere Mervyn's had as a smaller chain.

Today, Kilmartin approaches retirement, seeing his mission accomplished: The dream to turn Mervyn's into a national chain is quickly becoming a reality.

Called a "team player" and "motivator" by those who have worked with him, his style of

management has kept turnover so low that "there is so much depth in management here, there is no concern about carrying on after he leaves," one insider pointed out.

Although Wallace Kalina resigned as president in April, Walter Rossi who joined the chain in 1976 took the president's post—which at Mervyn's is the top merchandising job. Industry watchers expect Rossi will take the helm after Kilmartin retires. In Texas, another long-timer, Mark Cohen, is president and top merchant.

Mervyn's is still close to what it started out as in 1949—a soft goods specialty chain positioned between department stores and the Big Three—Sears, Penney and Ward. Its target customers are still middle-income families, today earning between $26,000 and $30,000. Never a margin-cutting discounter, the chain uses private labels and rotating promotions to keep prices sharp and quality high.

Mervyn's assortment has changed only a little. The mix now includes apparel for men, women and children; shoes; domestics; jewelry, and cosmetics. Two hard lines categories have also been slipped into the mix. Toys bolster the children's business, and over the past two years fashion housewares has replaced fabrics and notions.

While encouraging trend-riding moves that seem to bend the mold such as adding housewares, Kilmartin has seen to it that the central aspect of Mervyn's hasn't been altered: Promotions remain the linchpin of the merchandising formula. Weekly circulars which account for some 35% of the sales and other special event sales are the motivation.

Twice a week the merchandising staff and management up to the division presidents get together. One day they are in the store to get a first hand view of how current promotional items are being displayed. Another day they are at headquarters to plan another weekly circular, from deciding which items will be featured to how each item will be positioned in the store. The key to keeping the circulars fashion-right is planning only three and a half weeks out.

It was Kilmartin who initiated those weekly meetings years ago, one Mervyn's insider recalled. One buyer said attending the meetings led to his becoming "Mervynized—completely involved with the merchandising concepts and the customer profile."

After those meetings, "everybody knew not only what was going on in his own division, but also what was going on in all the divisions," the former Mervyn's buyer recalled.

Store managers and department managers are also Mervynized. Each week they rise to the challenge of another promotion—implementing special displays and competing with each other to break sales records.

From the mid-60's to '79, Kilmartin presided at those meetings, listening week after week for ideas that best exemplified the Mervyn's concept and weeding out those that veered away from the formula. From his comments and direction—always spoken softly but with command, colleagues said—the Mervyn's concept became ingrained in the minds of the merchants.

Unlike founder Morris, who went from working in his father's general store to launching the first Mervyn's, Kilmartin was a trained merchant. He graduated from the Harvard Business School after serving in the Navy and launched his retail career in department stores. He had reached the vice presidency at Rhodes Department Stores, when he moved to the then three-unit Mervyn's operation.

Competition Eyed

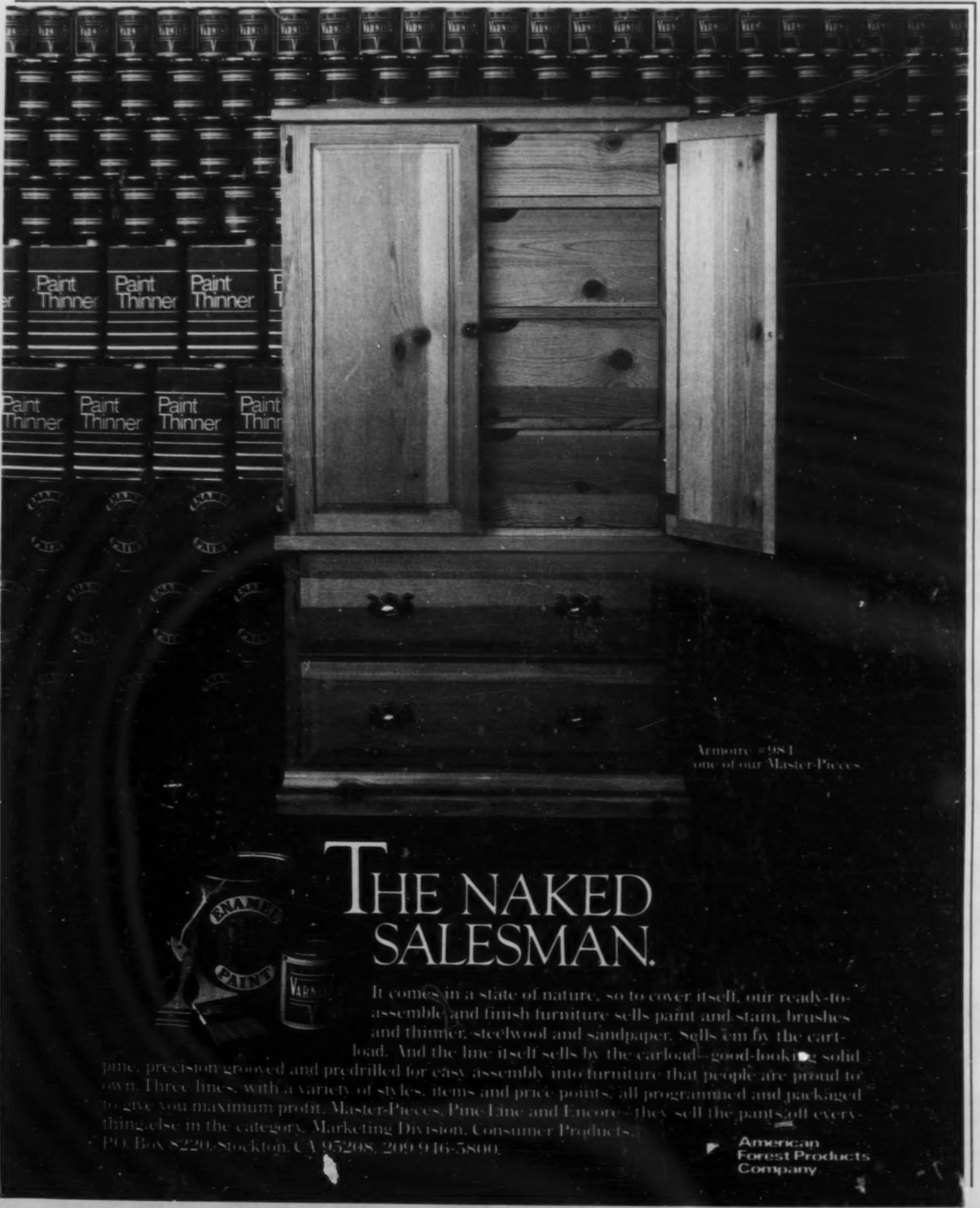
Today, with sales per square foot of $216 and rising by about 6% a year, Mervyn's executives are expecting more competition and talking less about their operation. "We've already given away too much about our business," one high-ranking company insider admits.

Mass retailers and upscale discounters are doing what Mervyn's has always done, and are developing quality private labels to increase their margins in soft lines.

Federated's new Mainstreet stores are closest to the Mervyn's formula and positioning. That chain is going after middle-income families. It is also building its business around a weekly flyer and is developing a private label program targeted to eventually account for 30% of the mix.

Current and future Mervyn's competitors all have some catching up to do on the merchandising side, say vendors who deal with Mervyn's. "They understand their niche and are willing to give up volume to keep the customers' reliability," said a domestics merchant.

"Their competitors—from Penney and Ward to Gemco and Fred Meyer—do 120- to 80-count sheets to offer low prices. Mervyn's, however, leans toward the upper-end, higher counts despite the price to insure their customers get quality." That's Mervynized thinking.



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The Lazarus Story—Today U.S., Tomorrow the World

By LARRY CARLAT

Toys "R" Us's Biz Zooms

Fiscal Year	Net sales (add 000)	Net earnings (add 000)	No. of units	New market entry
1979	$ 349,099	$17,208	72	Dallas/Oklahoma
1980	480,317	26,776	85	Seattle/Portland
1981	597,332	28,893	101	Philadelphia
1982	783,285	48,920	120	Southeastern Florida
1983	1,041,735	64,162	145	Atlanta
1984	1,319,642	92,317	169	Cincinnati
1985	544,224*	21,239*	198	Buffalo/Rochester

*First-half sales and earnings to July 29, 1984

Source: Toys "R" Us annual reports

ROCHELLE PARK, N.J. — Today the country, tomorrow the world.

As Toys "R" Us (TRU) continues its systematic entrenchment in American life, Charles Lazarus, its 61-year-old founder and chairman, has bigger goals in mind.

Joint ventures in Canada, England, the Middle and Far East will push TRU into the $5 billion sales bracket in the next five years, according to industry analysts, and coupled with the nurturing of the Kids "R" Us embryo, its off-price children's apparel division, many believe the chain will evolve into one of a handful of dominant worldwide retailers by the turn of the century.

"We hope to be opening our 200th store in China in 2004," said Lazarus, tongue in cheek, at a recent retail analysts meeting, but insiders and industry watchers say a goal of this scale is vintage Lazarus and they also bet he'll still be around running the show.

The show could conceivably include several other "R" Us operations.

Lazarus has often noted Kids "R" Us is just one of a myriad of potential outgrowths of his toy chain. Indeed, several analysts have pegged TRU as one of the best long-range retail stock investments. Robert J. Schweich, analyst at Wertheim and Co., feels the TRU stock could eventually climb into the low 120's by the year 2000, making it a bona fide blue chip.

By the end of the current decade, the analyst believes TRU will gobble up 25% of the total United States toy market—twice its current share—while successfully crossing over the transom into the corporate stratosphere.

Lazarus knows he can't take that giant step alone. To help handle the transition from United States retailer to global heavyweight, he's nearing the completion of a change in his top management guard, and, contrary to his long-time policy of promoting from within, Lazarus has gone elsewhere to fill in the gaps.

Two of the three men with whom he ran the company are no longer by his side. W. John Devine, formerly director of international operations, left the company's board of directors last January. Sy Ziv, who headed product development and at one time was Lazarus's right-hand man, retired this month due to poor health.

Howard Moore was the first tapped for TRU's new guard. Moore came over from Lionel in 1980 to handle TRU's merchandising area. He had owned Toy Town, a seven-unit chain in Baltimore, which Lionel acquired in 1977.

Over the past year, Lazarus has brought in Michael Goldstein as senior vice president, finance and chief financial officer, and Joseph Baczko as president of the company's international division. Goldstein was formerly senior vice president, operations and finance at Lerner Stores and a partner at Ernst and Whinney, certified public accountants. Baczko is a former ceo at Max Factor who headed the manufacturer's Europe-Africa-Middle East group.

With Norman Ricken, the last of the original TRU four, now president, running day-to-day operations, Moore and Robert Weinberg, vice president, merchandise manager, taking care of sales promotion and Michael Searles replacing Judy Stewart as president of Kids "R" Us, Lazarus has streamlined his organizational structure into six major operational areas—TRU/USA; TRU/Int'l; Toy Merchandising; Finance and Administration; Kids "R" Us, and Department Stores.

Besides a strong philosophical leaning toward structure and organization, what separates Lazarus from his competition and what many feel still drives him is an undisputed love for his business. He has said many times that toys is a fun business, and at Toy Fair he's perhaps at his most ebullient.

During that February week, manufacturers say he bubbles and glows. Animated and excited, he moves from one jammed showroom to the next, picking up toy after toy, asking a hundred questions on each while offering advice on everything from merchandising to advertising.

The Reason Why

"When he looks at the TRU logo, he reads his name in it. Running his business is what he loves to do best. To him, it's like breathing," said the vice president of a major toy manufacturer.

Lazarus readily admits he and his company are one: "My ego is the growth of this company and seeing how well we can do something, how we can continue to improve it, not just sit back and say it's good enough," he has been quoted as saying.

He's obviously not the laid-back type. Lazarus is highly disciplined, detail oriented, efficient and a bit of a worrier, say those who know him. Also deliberate and logical, not terribly risk oriented but above all, tenacious.

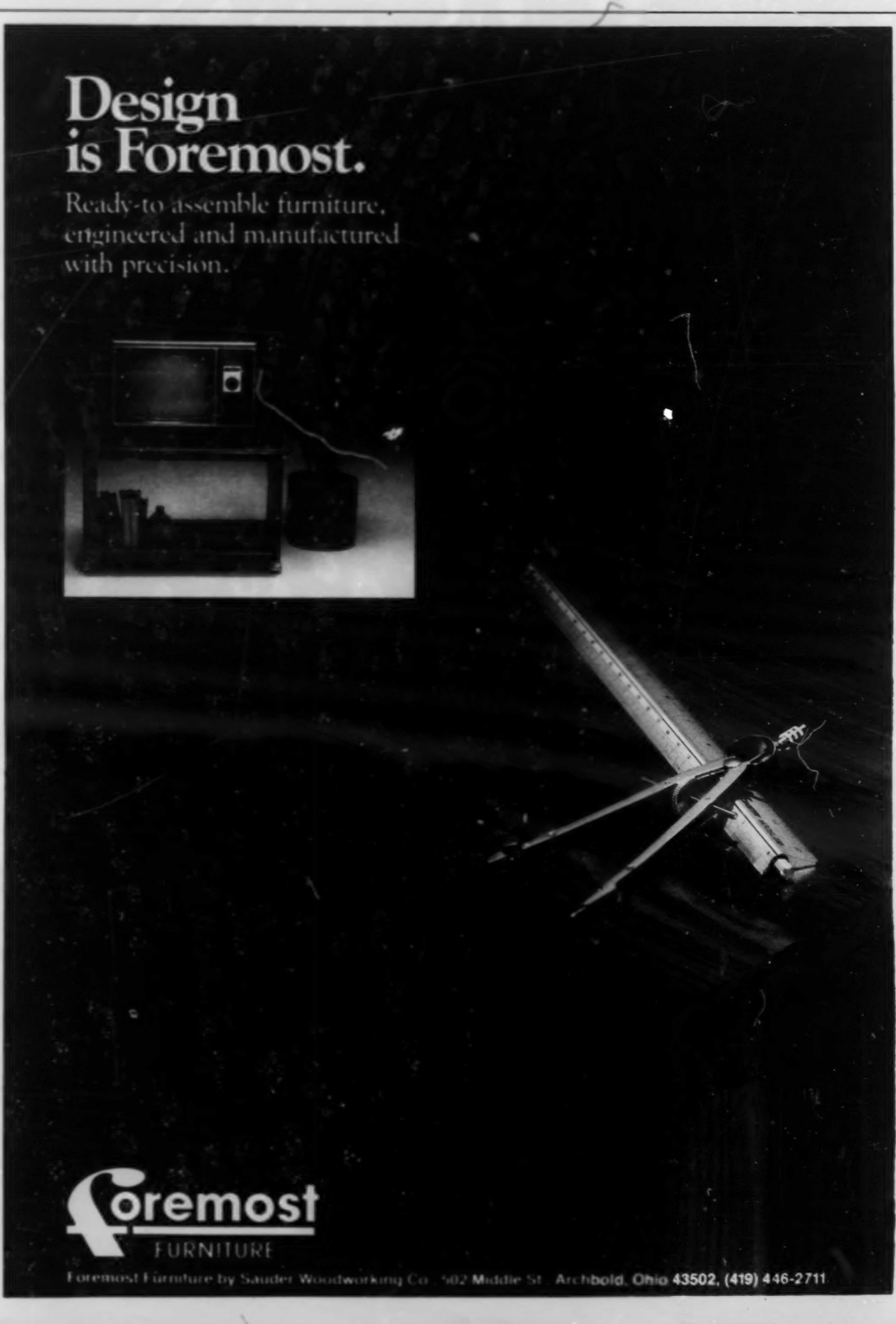
Everyday low pricing (what he calls "real" pricing), immense assortments of name brand toys (over 18,000 sku's overall), a liberal return policy and cookie-cutter units located near malls are the bedrock principles of his company. They are also the tools he uses to move closer to his long-range vision—to be the only game in town.

If anything, Lazarus is a great editor. On a broad scope, he has chopped out several competing chains on his way to the top. Within his own chain, Lazarus is constantly editing everything.

"We closely monitor 50 different licenses weekly. If you don't, you get killed," he said.

While supporters also see Lazarus's affinity for methodical orientation to detail in the

(Continued on page 31)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Lazarus's Next Milestone: $2 Billion in Annual Volume

(Continued from page 28)

chain's state-of-the-art computerized inventory management system and its tightly controlled expansion into only one new market a year, critics—and there are few—said his calculating and analytical approach to problems make him and TRU relatively predictable.

But while competitors might be able to chart TRU's next strategic move, nobody is too keen to go head to head with them.

"He stays within the boundaries of a very well-defined concept and over the years, patterns emerge but it's all focused on his vision. If it was up to him, he'd be the only retailer in the United States," John Chase, president of Child World, the No. 2 toy supermarket chain, said facetiously of his chief competitor.

Lazarus is known for both his voracious appetite for market share and his tenacity. Many have described him as a "gentle tiger," and although he packages his toughness better today than he has in the past, the bottom line is the same. Lazarus will push everything to the limit.

"He's changed. He used to be very demanding to the point of pounding on your desk. He was never much of a screamer, though; he had other people for that. It was more of an ego play in the past but now he has manufacturer's reacting like Pavlov's dogs," said an executive at a major toy manufacturer.

In Agreement

"He doesn't miss a cent that's due to him and most likely, he'll get exactly what he wants," said Ray Wagner, ex-president of Mattel's toy division and now consultant to Hasbro.

"Exactly what he wants" often means TRU will only do business on its terms. Lazarus takes as few risks as possible. Manufacturers said the chain will not accept delivery of a product until it is sure it's a winner, nor will it even place an initial order unless the manufacturer agrees to accept returns at no cost to TRU, a benefit not extended to every toy retailer.

Because of its year-round operation and its extensive warehousing network, TRU can place and sometimes receive orders in February, right after Toy Fair and get an additional early buy-in discount of 1% to 5%. These orders, manufacturers admit, will frequently not be paid for until the following January, after the Christmas rush. Competitors who do not have TRU's warehousing or EPOS resources find themselves facing tighter terms as Christmas approaches.

In addition, as the industry's largest customer, it receives priorities on deliveries. Hot toy products are often on TRU shelves months before they filter down to full-line discounters, but in some cases, like the Cabbage Patch phenomenon, TRU waits in line with everyone else. Lazarus recently noted the chain has been taking customer names and filling the requests in rotation. TRU currently has one million names on its Cabbage Patch list.

At the same time, Kids "R" Us, although it has not yet achieved the clout of its parent, is beginning to make an impact in children's apparel. With 10 units in operation and an additional 15 expected next year, many believe, although competition is rampant, the chain is following the same path as TRU. There is, however, a glaring difference between the two chains, noted Lazarus.

"We hope to open our 200th store in China in 2004."

—Charles Lazarus

"With TRU we pretty much warehouse toys. Kids "R" Us is different. Selling clothes requires service," he said.

Lazarus adapts. Industry watchers agree he'll do whatever possible to keep his TRU machine grinding along toward its current goal of $2 billion in sales. Currently, he has had more time to spend charting his global aspirations and pitching the financial community. He has also had a little time to relax.

"I think Charles has become less single-purpose than he used to be. He had very little outside interests prior to his second marriage," said Bernie Loomis, an ex-president of Kenner, who now heads a joint venture company with Hasbro.

Lazarus's second marriage, to Helen Singer Kaplan, a noted sex therapist and analyst at New York Hospital-Cornell Medical Center, has introduced him into new social circles. He enjoys accompanying her on her lecture tours and basks in her celebrity, say his friends.

But, be it at literary gatherings with novelist friends Howard Fast, Erica Jong and Bel Kaufman or walking a product line with any of a dozen manufacturer vice presidents, part of his charm, according to interviews, is his ability to fit right into any situation. Friends say he leaves his ego at TRU's doorstep.

"He doesn't flaunt anything. There's not a wise guy bone in his body. He doesn't talk down to people, where other men in his position do not handle themselves in the same manner," said Sam Rubin, bicycle importer and owner of John Henry, a nine-year-old super thoroughbred horse that has won over $6 million. Lazarus and his wife have been Rubin's guests at the track several times.

"Charles enjoys it with the enthusiasm of a little kid," noted Rubin. Lazarus, who lives in Manhattan, also enjoys fishing and will occasionally take out his boat at a summer home in Amagansett, Long Island.

"You'd be surprised, a man with his kind of money, owns such a small boat," said Rubin.

Lazarus is worth well over $75 million on paper alone (he owns over a million shares of TRU plus his salary is among the highest in retail suites at $1,887,480); and, although he's known as a philanthropist, he's particularly quiet about it.

Bernie Loomis joked about Lazarus, "If I ever needed anything real bad he'd be there but

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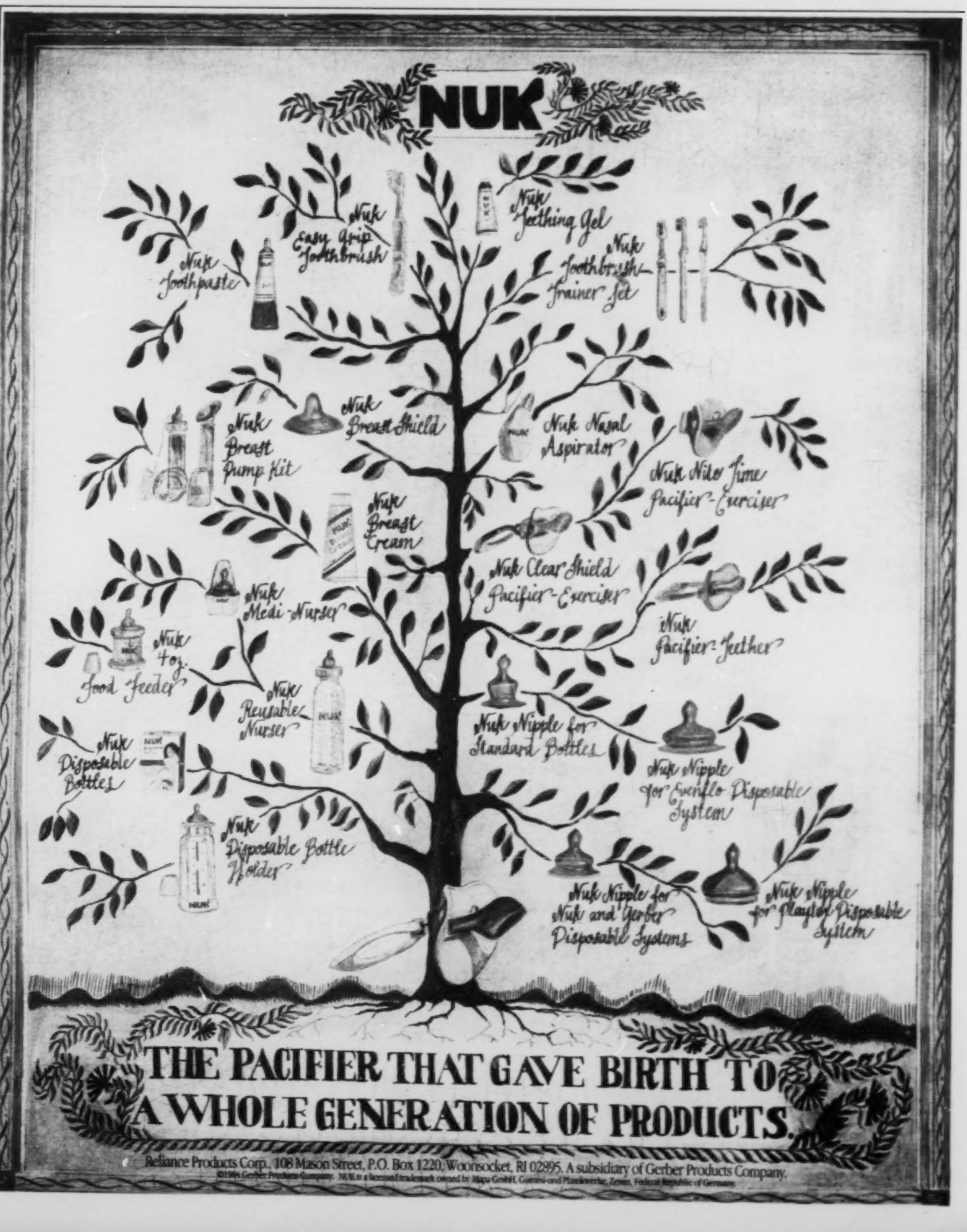

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Drug Emporium

Phil Wilber (r.) says Drug Emporium stopped being a mom-and-pop shop when he added a second tier of management. Don Brennan (l.) was brought in to oversee store setups. *(DSN photo)*

Wilber's Deep-Discounters Grow Into Seasoned Retail Operation

COLUMBUS, Ohio — By their own reckoning, they're past the crossroads now.

"We're not a mom-and-pop operation any more." Gary Wilber, son of the 57-year-old head of the Drug Emporium, Phil Wilber, sees the company his father founded here seven years ago as being "a year into a second-generation management structure."

In fact, he can pinpoint exactly the events that transformed the now 47-unit network of franchised and company-operated deep-discount drug stores from a mom-and-pop shop into a seasoned retail organization primed for growth.

"These were key events, hard facts, that confirmed our assumptions about the company's potential," he said.

In a way, they are also key events for the industry Drug Emporium has helped spawn.

While Phil Wilber didn't invent deep-discount drug retailing, he has taken the format further than anyone else. Today Drug Emporium is the largest organization of its kind in the country, and as Gary Wilber noted, "the race is on."

Since 1983, eight of the country's top 25 drug chains have launched their own versions of the concept, and several general merchandise retailers, including Wal-Mart, K mart and most recently Woolworth are also experimenting with it.

The Background

The first coming of age event was the opening of Drug Emporium's third company-owned store in its home town, Columbus, Ohio, in early 1983. (Today there are four DE units here.)

Unlike other deep-discount store operators (most notably the wholesale/membership warehouse chains whose razor-thin margins don't return enough to the bottom line to support big advertising budgets), the DE marketing equation calls for heavy ad expenditures. The company's franchise agreement—which Wilber said is tougher today than in the past to make sure "we address the issues we feel are most important"—stipulates that franchisees must spend 1% of annual gross sales for television, radio and outdoor advertising; 60% of that shall be spent on television advertising.

"We found we reached a point in the [Columbus] market where TV created such a demand," the younger Wilber continued, "that the day we opened the store it was profitable. We found we could just go ahead and expand because instead of linear development of stores, there was geometric growth."

The second event was going into Atlanta.

A year ago the Wilbers merged their companies, Columbus Drug Emporium and Drug Emporium Ltd., with Sun States Distributing, the local DE franchise owned by Frank Shanower and Bill Kedri, both formerly with Fishers Big Wheel.

Flush with $5 million from its first private stock placement, the new company, Drug Emporium Inc., was able to move quickly and build its position in the market, according to Wilber. Currently, there are seven DE stores in metropolitan Atlanta; by the middle of next year there will be either 14 or 15, he said.

Adding It Up

A second $5 million stock placement, which Wilber expects to be completed before the end of the year, will in part fund those openings. All totaled, DE plans to open 25 company-owned stores, 20 joint ventures and 10 franchisee-run units in 1985.

The third rite of passage was the creation of a second tier of management.

Today, there are five vice presidents, including Gary, who said he functions as a chief operating officer, responsible for all operations in both company-owned and franchised stores. His father is ceo, responsible for long-term planning, financial deals, and working with franchisees, shareholders and the board of directors.

But, for years, running the business was the exclusive domain of Phil and Gary, and Phil's second wife, Cathy, who acted as treasurer and accountant. She's still active in the business.

Then as now the father and son take on assignments in tandem, "switching roles in a good-cop, bad-cop" pattern, according to Gary. "My father has the hotter temper. He's a very hard negotiator. I remain calm. I'll stay behind and smooth things out."

Others, who have sat across a bargaining table from Phil Wilber, agreed: He's a very hard negotiator, but an honest and fair man.

Following the merger with the Atlanta franchise last year, Shanower, who had been vp,

(Continued on page 34)

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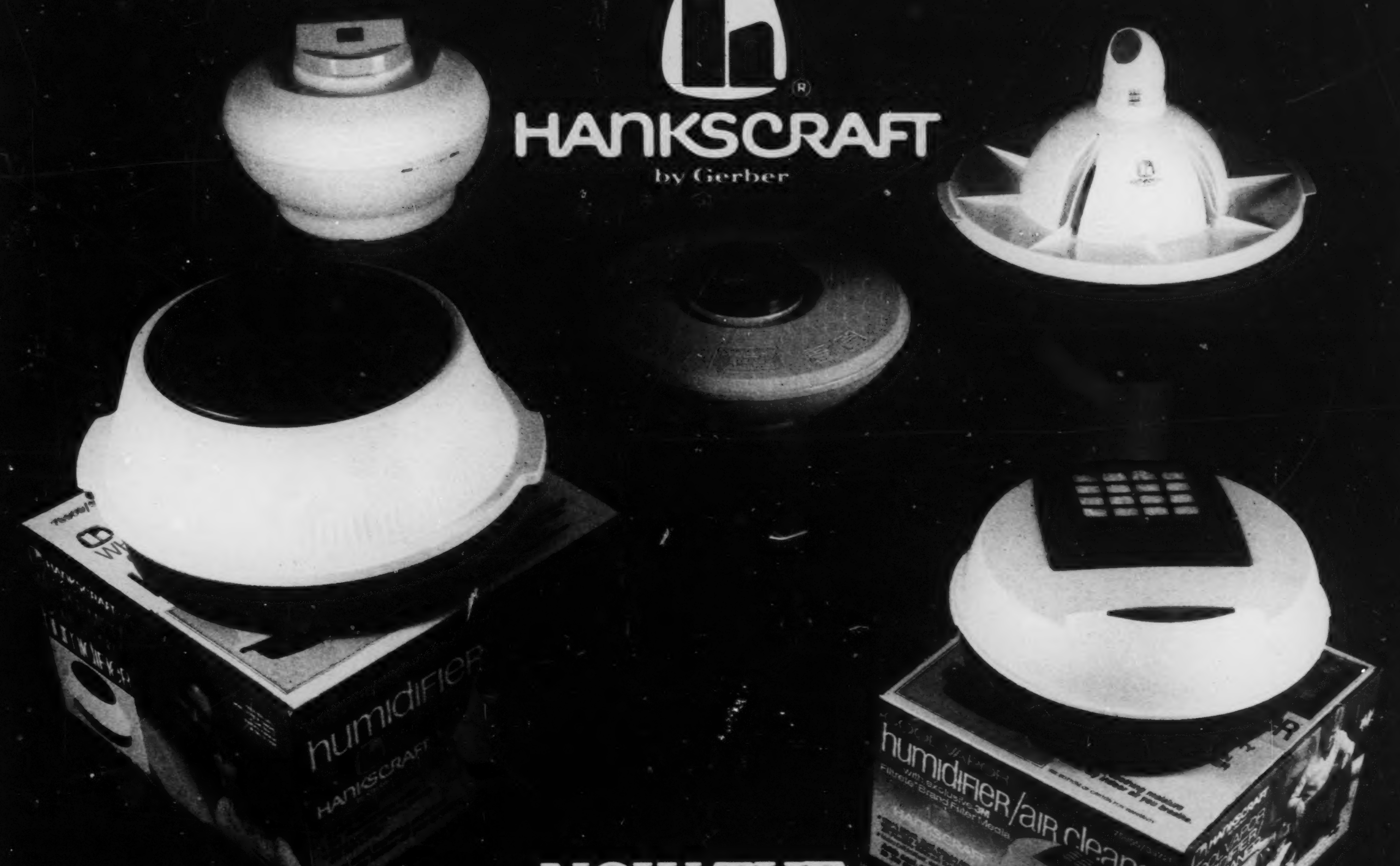

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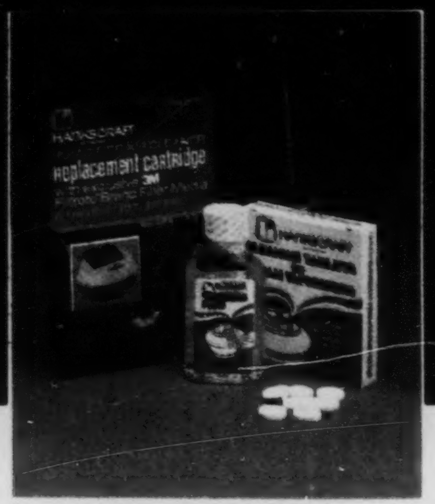

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Wilber Plans New Growth Cycle For Deep-Discounters

(Continued from page 32)

gmm at Fishers Big Wheel until 1982, was made vp, merchandising. His franchise partner, Bill Kedri, became vp, operations for Atlanta; Patrick Hiller, previously with Wendy's, is now vp, franchising, and Mel Robinson, is vp, finance. A sixth man, Don Brennan, was brought in to oversee store setups.

"That stock offering was a turning point," Phil Wilber told *DSN*. "Before that I did all the traveling, franchising, banking, operations." And instead of working from his home, Phil now has headquarters in an upstairs suite of offices in a small strip center not far from his house.

The management team isn't so large, however, or the job specialization so complete, that the players can't trade positions. Son Gary views this flexibility positively; in his own case, it keeps him in touch with every aspect of the business.

At the same time, he admits there are several staffing areas which still need "a tad of beefing up."

"We'll probably add a comptroller, because we're getting pretty far-flung in terms of finance; a training person, and another in operations," he said.

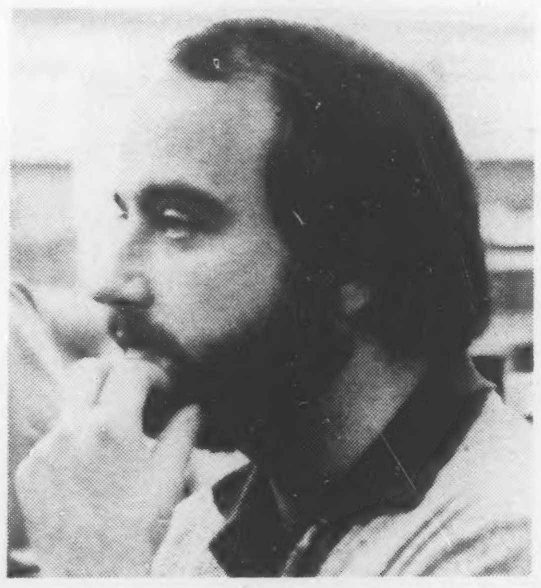
"We'll bring people in all the time, and for any position," Wilber senior himself said. "We won't let our egos get in the way of the growth of the company. The company is being run for the stockholders—and all of our top people are stockholders." Phil Wilber has the largest block of stock in the private held company, but not a controlling interest, according to his son.

Recently, the 57-year-old senior executive was sidelined by coronary bypass surgery. All involved expect his absence will be temporary. Gary reported that only a few weeks into his recuperation Phil's already reading reports, staying in touch with the business—which all say hasn't skipped a beat.

"He has great confidence in us," Shanower said, "and we all [five] get along well. I probably didn't talk to him normally more than twice a month anyway; he's outlined our responsibilities very well.

"He's also not an ego-struck person. He gives you direction and lets you do it. If you need help, he'll help. He enjoys the success of his people."

> **"My father is a hard negotiator. I remain calm. I'll stay behind and smooth things out."**
>
> *—Gary Wilber (pictured)*



Jeff Marder, 33, a partner in K&J. Associates, the Seattle DE franchise, concurred: "Phil obviously needs to slow down. His one weakness is that he tries to spread himself too thin. But, he's a valuable commodity to the business—regardless of the time he puts in."

An insistence on top-quality, one-on-one relationships is a Phil Wilber hallmark, all agreed.

"The most fun I have is with store managers," the company founder has often said. "Observing them, seeing their excitement. Everyone loves to be emulated, and when I see a manager just as excited about our growth as I am, it's like having a son or a daughter going into the business."

He also tries to emulate the people he admires. "I admire Truman for the tough decisions he had to make; Ike for his leadership; Churchill, who was the man of the century, for his leadership abilities," he said, recounting the story of Eisenhower and the piece of string: "If you push the string it won't go anywhere, but if you pull it will go anywhere you want."

"I get disgusted with people who make demands," he went on. "I tell managers, 'Don't say pick up that piece of paper.' Pick it up yourself as you're walking and talking."

Neither of the Wilbers expects unit growth to cramp the company's or their own entrepreneurial style. The company's formula for success—which Shanower called a "pretty KISS [as in keep it simple, stupid] formula"—remains at the heart of the business.

To allow the company to work on an average, 18% gross margin, there is no centralized buying/distribution setup. All goods are bought by individual store managers; approximately 80% of them are bought on deal. Store managers also arrange daily receiving schedules of up to 1,500 and 2,000 cases of merchandise in the busiest stores.

Merchandise assortments are composed overwhelmingly of health and beauty aid items—"We sell an inordinate number of secondary brands/items," Gary Wilber said. There is also a smattering of snack foods, stationery, greeting cards and household products like light bulbs. A pharmacy at the rear of the store accounts for 15% of sales, he said.

A Closer Look

In all, the stores, which average just over 20,000 sq. ft., stock 30,000 items, and despite the preponderance of deal buying, nearly 80% of the items are continuity brands.

Mature units produce sales of between $10 million and $12 million; average ringups vary from location to location but range anywhere from $8 to $15 or $16. In Seattle, Marder said shoppers at his oldest store (opened three years ago) generally spent $13.50 per shopping trip. The figure was lower, $10, at the store he opened last year.

"We're a specialty store in the personal care business," Gary Wilber explained, and after seven years in the business, the pressure to tinker with the assortment is simply not as great as it was five or six years ago.

Still, given human nature, franchisees often attempt to do just that. Wilber said the two greatest problems they have with franchisees are violations of the chain's pricing strategy and problems with the mix.

"The problems come about when you take someone and train them. After they leave [headquarters] they think they know more than we do," Phil Wilber attested.

As a result, the Wilbers rely heavily on people who don't have a drug store retailing background. "There's less for them to unlearn" founder Wilber said simply.

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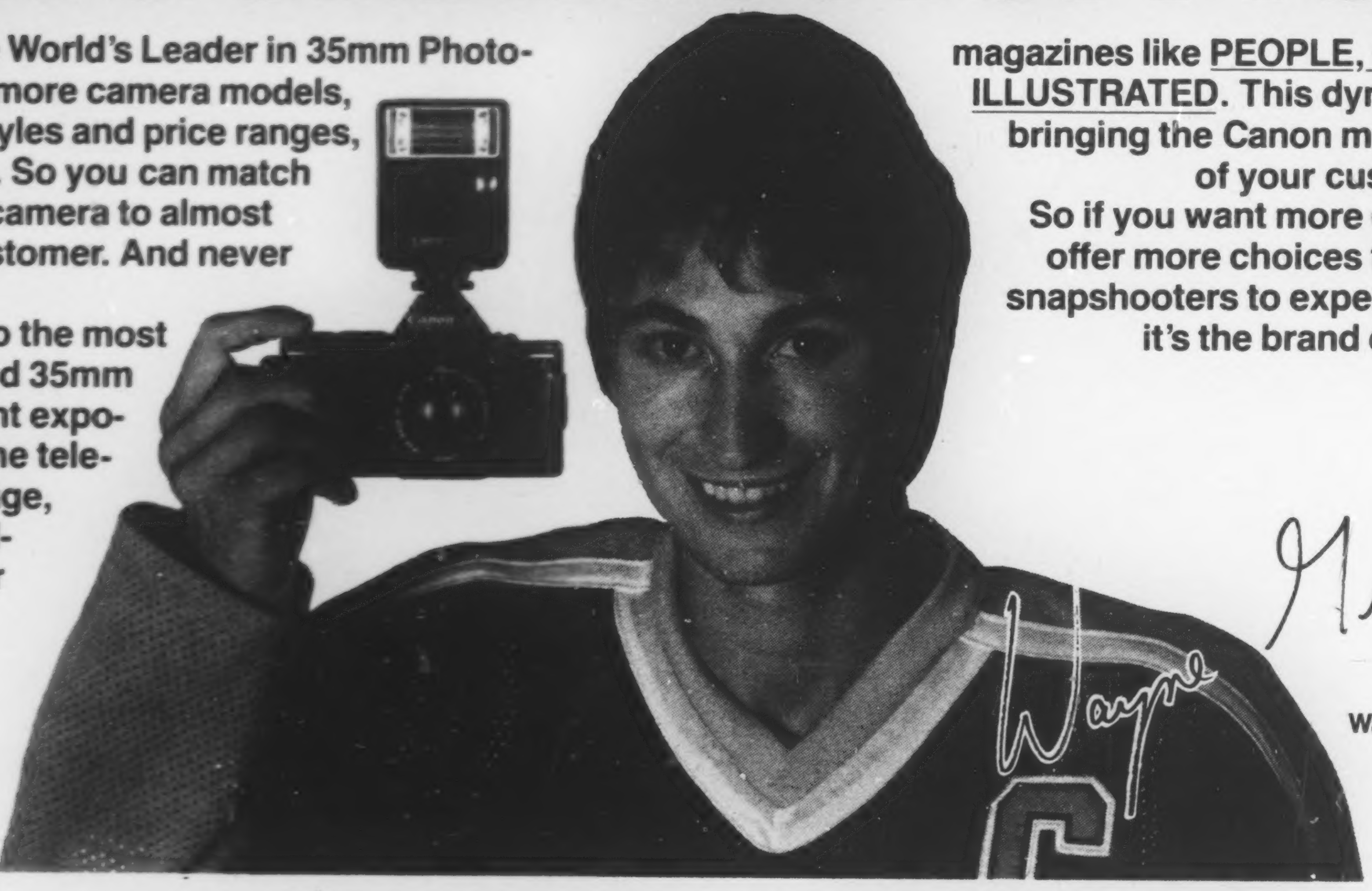

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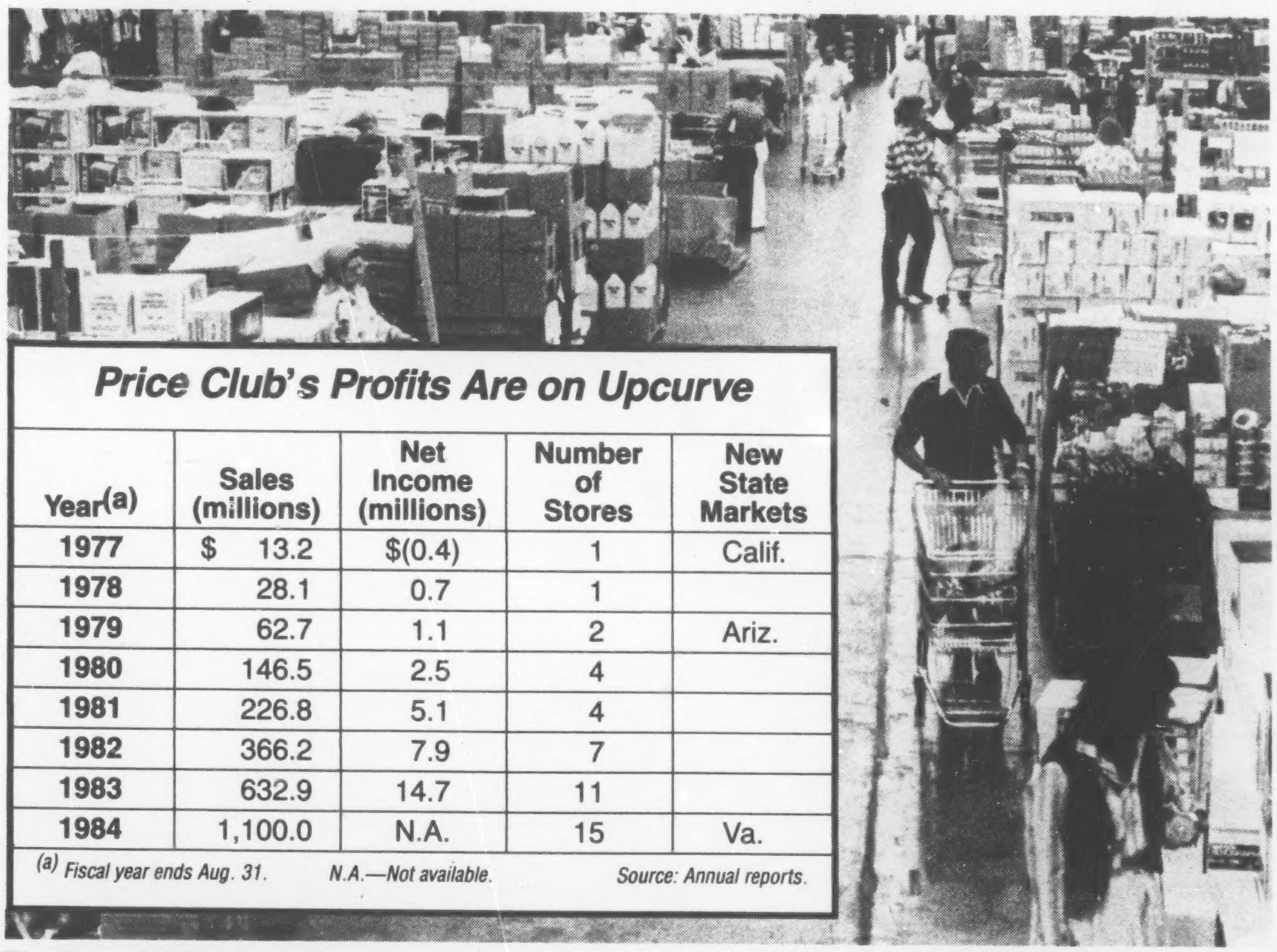
What's Good For Consumer Is Good For Sol Price



Price Club's Profits Are on Upcurve

Year[a]	Sales (millions)	Net Income (millions)	Number of Stores	New State Markets
1977	$ 13.2	$(0.4)	1	Calif.
1978	28.1	0.7	1	
1979	62.7	1.1	2	Ariz.
1980	146.5	2.5	4	
1981	226.8	5.1	4	
1982	366.2	7.9	7	
1983	632.9	14.7	11	
1984	1,100.0	N.A.	15	Va.

[a] Fiscal year ends Aug. 31. N.A.—Not available. Source: Annual reports.

The Price Club mass-displays goods in cut cases in barebones buildings as part of its plan to hold down costs to sell goods at wholesale prices.

(San Diego Union-Tribune photo)

SAN DIEGO — What's good for the consumer is good for me.

That's the business philosophy of Sol Price, said many of his associates, as they analyzed this successful entrepreneur whose every move is closely watched by retailers all over the United States.

His latest endeavor launched a new retailing industry—the wholesale membership club—that has been emulated (copied is the word that competitors privately acknowledge is a better description) by more than a dozen companies. These include such retailers as Wal-Mart, Zayre and Pay 'n Save and firms headed by businessmen like John Geisse, developer of the Target and Venture chains, and Walter Teninga, former vice chairman and chief financial officer of K mart.

Price launched the Price Club, now a $1 billion-plus company, early in 1976 at what some call probably the low point of his retail career, seven months after the new owners of FedMart forced him out of the premier West Coast discounter that he had helped found and drive during the previous two decades.

FedMart was the leading discounter in southern California and its success attracted many suitors. Price, through the stock ownership of his family and associates, along with an employee trust, was the key to any merger.

In 1975, the opportunity to expand from a regional power to a national company led Price into a deal with West German retail giant Hugo Mann. But, by the end of the year Mann had locked Price out of his office and company.

One source who was with Price at FedMart said: "I think Price realized he made a mistake when he got involved with the Germans. They didn't want him there because you can't have two leaders and Sol doesn't work well with anyone else—he has to be his own man. I don't think Sol works well with any partner except for his son, Robert."

Further Considerations

Another source, recalling those days, added: "You have to be strong to stand up to a towering personality like Sol. Generally speaking, there's only room for one such person in a group. I think that's what happened between Sol and Hugo Mann. Both of them liked each other; they had very similar personalities as much as neither would want to admit it. Both had egos, sharp decision-making capabilities and strength to argue those decisions. But, the problem is that ultimately only one can lead."

Without Price, FedMart quickly started to slide downhill and within six years its only value was its real estate. Many of its stores were eventually recycled as Targets when that discounter invaded California a few years ago.

"Sol was embarrassed by the FedMart debacle," one source said. "It was his child and he felt hurt for the employees, the people he had worked with. I don't think he got any personal satisfaction from FedMart's failure."

Even though he wasn't responsible for FedMart's demise, the chain's failure hurt Price's ego, one source explained. "He's driven by success. He doesn't like mistakes. He likes to do something and he wants it done right. He wants it to be a success, an accomplishment, whether it's FedMart or Price Club or taking care of consumers or charitable contributions. He has not only an intellectual interpretation of what is right, but also a moral interpretation of what is right."

That same drive is evident in his approach to business.

"He is a real entrepreneur, and a real capitalist," the source continued. "He believes in the

(Continued on page 40)

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Price Combines Acumen and Morality

Sol Price (l.) has played down his role in developing the Price Club into a $1 billion operation, letting the spotlight fall on his son and only real partner, Robert Price (r.). *(San Diego Union-Tribune photo)*

(Continued from page 38)

free market. That's why he didn't like Fair Trade laws. He believed that if he can bring something to the consumer cheaper, he should be allowed to do it. He has always believed that the best way of making money has been to bring merchandise to the consumer at the lowest price. He believed it at FedMart and he believes it at the Price Club. If another way of distributing merchandise should evolve that does that, I would imagine he would untimately grasp that concept as well."

Press-shy Price declined to be interviewed for this story. However, he has been less reticent in expressing in local publications his entrepreneurial views and strong belief in the free market economy. He is one of the *Forbes Magazine* 400 richest men in America, worth a minimum of $180 million from his 16% stake in the Price Club and other assets.

Knowledgeable associates who know Price from the days at FedMart and/or the Price Club provided their views—generally highly complimentary—off the record. They used words like social conscience, morality and loyalty that aren't usually associated with strong-willed, sharp-tongued and demanding entrepreneurs like Price.

Their admiration reflects Price's personal generosity, kindnesses and business acumen.

It was his acumen that led numerous American retailers to closely study Price's business ventures, and led a few friends and associates early in 1976 to buy a total of 475 shares, each worth $5,000, to join him and his son, Robert, in putting up the $2.5 million seed money for the Price Club.

One source noted: "I can remember seeing someone walk out of his office in tears, out of joy of allowing Price to take his money and invest it in the Price Club."

The concept was untried and could have been a failure, but "Sol has a reputation and anyone that knew him respected him as an entrepreneur and as a genius in retailing."

The first store, which opened in June 1976 on Morena Boulevard in San Diego, began to fail after about nine months of operation. At that time, the original concept was to be just a wholesale club for small retailers. Price rethought the plan and "adjusted and fine-tuned it to get it to be a success," one source said.

"He was on the floor, talking to customers, asking them questions. I can remember one customer asking Sol: 'These are the lowest prices in San Diego. Why don't you extend them to my employees? They are good employees and they deserve it just as much as the retailers. They won't give you bad checks.'

So Sol went back to the membership store concept he originally used at FedMart. It was ironic because when we first did it, Sol said the wholesale customer, the small businessman won't shop at the store. But the net result was that both the wholesale and the membership business grew in tandem. Somehow each created credibility for the other."

That store was the company's only unit during its first fiscal year. The results at the end of Aug. 31, 1977, showed $13.3 million in revenues and a net loss of $353,000—the only red ink the company has ever shown. It has grown to a $1.1 billion, 15-store retailer (including its first on the East Coast) for the fiscal year ended Aug. 31, 1984.

Upswing Noted

Those revenues are a 71% jump over the previous year and mirror the growth that the Price Club has achieved in past years—and which has made it one of the hottest concepts in retailing.

Completed results for the previous fiscal year ended Aug. 31, 1983, when there were a dozen Price Clubs, showed revenues of $643.5 million, a 73.5% increase from $371 million (from seven stores), while net income of $14.7 million was an 86.7% gain from $7.9 million.

Retailers who have opened similar units—Price Club at times is used generically to mean warehouse club retailing—have tried to match the company's latest format: a two-tiered pricing structure and membership fees for businesses buying for resale as well as individuals (called group members) buying for their own use. Annual membership fees were instituted for the latter group to hold down the flood of people who want to shop the Price Club.

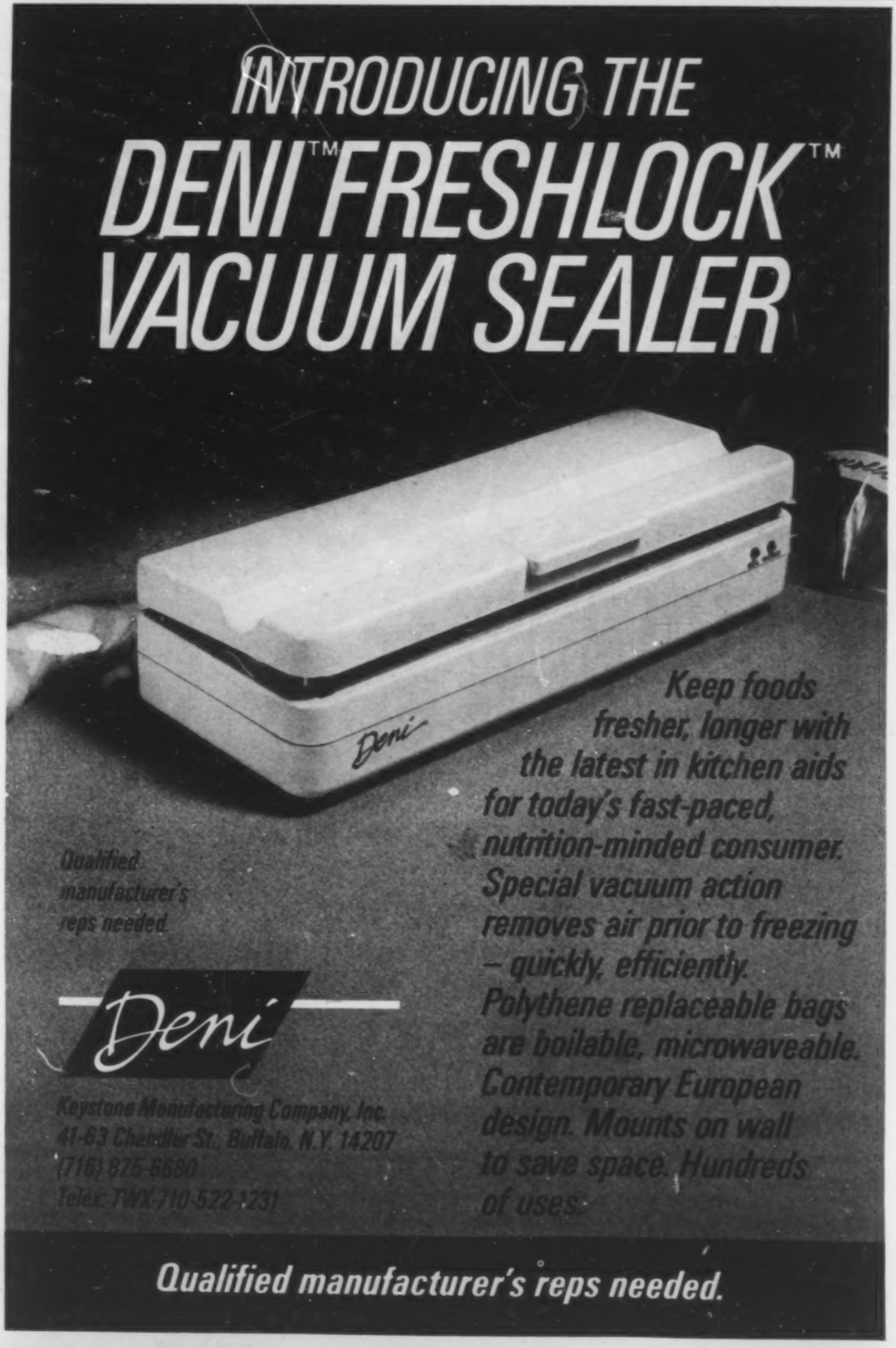
That step was just part of the continuous evolution of the Price Club, one source said. Similarly, more items have been added: more frozen food, more case lots, and more products packaged in large sizes and multicounts just for the company.

"It's discounting, the merchandising ideas Price followed at FedMart, starting all over again," he added.

In one sense, the Price Club extends FedMart to the small-business man:

"Price wanted to provide the same savings to small merchants that he had offered consumers at FedMart. Price Club

(Continued on page 68)



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Marcus's Challenge: Whip New, Better-Heeled Rivals

By AL HELLER

ATLANTA — Bernard Marcus, 54-year-old co-founder and chairman of The Home Depot, is a master showman.

For years, analysts said, he successfully deflected skeptical Wall Streeter questions by assuming a hurt look and saying, "How could you ask me that? Look at our track record."

That record was impressive: 21 stores and $256 million in five years.

Today, however, the analysts are more persistent: They want to know if Marcus can take Home Depot beyond its initial golden period to become a national chain able to whip better-heeled competitors.

Throughout Home Depot's period of uncontested dominance in its markets, the chain's consistently spectacular financial performance made it a Wall Street darling; that also became its Achilles heel.

Home Depot stock, which had split three times already in its high-flying life, plunged 28% within hours when the company posted a less than anticipated 33% operating income gain on a 79% sales increase in the quarter ended this past July 29.

This was the first time Wall Street's widespread respect for the chain became tinged with doubt.

Home center operators, and stock analysts who follow the trade, project that rocky times may lie ahead for Home Depot because:

—K mart's Builders Square and Service Merchandise's Mr. HOW Warehouse, among Home Depot's better capitalized imitators, have heated the warehouse home center fray with expansion plans that are twice the size of Home Depot's scheduled 15 new stores in 1985;

—Home Depot's field management is being strained by expansion, and store management is being pirated by competitors;

—Low-cost prime sites in new markets are becoming rare;

—Copycatting of Home Depot merchandising is blurring distinctions between Home Depot and its competitors among consumers.

The Home Depot's Statistics Skyrocket

Year	Sales (000 omitted)	Net Earnings (000 omitted)	Total Stores	Markets Entered
1979	$ 7,030	$ (930)	3	Atlanta
1980	22,320	856	4	—
1981	51,540	1,445	8	Miami, Orlando, southern Florida
1982	117,650	5,315	8	—
1983	256,180	10,261	19	New Orleans, Tampa Bay, Phoenix
1984	214,940[C]	7,245[C]	32[A]	Dallas, Fort Worth, Baton Rouge
1985	—	—	47[B]	Jacksonville, Detroit, Houston, southern California, Tucson

[A] Includes Fall 1984 Bowater acquisition. [B] Announced company plans. [C] Six months ended July 29, 1984.

Source: Company and analyst reports.

Back in 1978, Marcus and Home Depot co-founder and president Arthur Blank, 41, then chairman/president and vp-finance, respectively, of Daylin's Handy Dan division, devised a plan to marry mass merchandising concepts to the home center trade.

They opened four Home Depots here in 1979-80, which ushered in an era of large and deeply stocked warehouse home centers fostering low-price images with constant promotions, and produced high-volume, high-turn operations. Floor sales help, trained to sell packages and induce add-on sales, were also a critical factor.

Today, some of Marcus's critics feel he may be too willing to risk Home Depot, still in an embryonic stage, by taking it into unnecessary head-to-head market battles against imitators.

Marcus's colleagues contend that he, as the warehouse originator, feels strongly he can beat any emulator in any market by sticking with what's made him successful.

He's already expanded from Atlanta to New Orleans, where Home Depot battles W. R. Grace's House Works warehouse stores, and is also in Phoenix, Tucson, Orlando, Miami, Tampa Bay and southern Florida markets.

Marcus's agreement in principle to buy Bowater this fall—for $40 million and a convertible subordinated debenture—will give Home Depot an immediate store presence in Dallas, Fort Worth, Shreveport and Baton Rouge, La. and Mobile, Ala., plus real estate in Tulsa and Oklahoma City.

The 10-store takeover, which will raise Home Depot's total store count to 32, will give Marcus new market footholds without the need to build new stores—a chain weakness that contributed to slowed store openings in 1984, Marcus conceded. He moved quickly to buy the 14-month-old Bowater chain, reportedly working without a letter of intent that might have wasted time or attracted competing bids.

Now, armed with remaining cash from an $86.3 million 8.5% convertible debenture sale last summer, Marcus is sticking with plans to open Home Depots next year in the Los Angeles and Jacksonville markets—plus Houston and Detroit, even though K mart's Builders Square will be open first in both

(Continued on page 44)

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Home Depot hit the Big Board last April with great fanfare. Today analysts wonder if Bernard Marcus (right) can expand the chain faster than the warehouse home center industry he created.

Marcus Proud of Assembling Top Brass

(Continued from page 42)

cities.

He'll be battling Builders Square president Frank Denny, who used to work for him at Handy Dan. Denny has five units going in Houston and six other prime sites secured; Home Depot has already broken ground for two of its planned four sites there. In Detroit, Denny hopes to outflank Marcus with six units to be open by the spring.

It's market research, not ego, that's driving Marcus into Houston and then to Detroit for his first foray northward, insisted Bo Cheadle, analyst at Montgomery Securities, San Francisco. "Bernie sees beyond usual perceptions. He loves [Home Depot's] demographics, and is going ahead," despite Detroit being K mart's backyard, Cheadle said.

The square-off of Marcus and Denny has an emotional edge, implied another analyst, who's close to both executives. "Denny was angry when Marcus bid for his company [Home Centers of America] this summer. It got Denny's backers hot for a deal just when he was on the verge of turning in some good numbers," said the analyst. "It drove him into the arms of K mart, where he retains some independence. At Home Depot, he'd have been totally absorbed."

Speaking of Marcus's raw drive to be a dominant national force in the retail industry he created, Touche Ross's Al Beerman said, "He's attracted to the action."

Marcus repeats that message constantly. "In a crowd of one or 100, Bernie always says, 'Buy our stock. Home Depot will be great for you,'" noted colleagues amused by his zeal.

However, Frank Williams, vp-research at Cantor Fitzgerald, questioned that: "We don't know how well Home Depot will survive all the obstacles, because any company growing that fast has to have somewhat weak middle management." If K mart, say, converted four of its 23 Atlanta sites to Builders Square, then ran them to hurt Home Depot's short-term performance, Marcus would have big problems raising affordable expansion funds, he contended further.

For now, Denny said Atlanta's not in his immediate plans. If it were, they'd be no shoo-in anyway.

Calling Home Depot's Sunday crowds equal to those of the Falcons football team, a local competitor said, "Home Depot leads Atlanta by the ear." That includes a Handy City that's been reformatted and remerchandised to copy Home Depot down to the color striping, he added.

A newspaper advertising executive in that market said Home Depot's weekday ads "drive the guys from Lowe's and Handy City nuts. They always call in price corrections for their weekend ads, as much as $3 off a $6 item."

They're reacting to Home Depot's low-price image fostered by Marcus's aggressive advertising strategy: promote 300-400 of the chain's 25,000 sku's to bring people into stores where trained floor staff build add-on sales. Home Depot averages $30 per customer transaction, compared with $12 industrywide, according to trade experts. They concur with Marcus's regularly stated claim that his advertising and high-service strategy can double a city's do-it-yourself market.

High Volume

Marcus's success stemmed from large stores (63,000 to 110,000 sq. ft.), which sell deep inventories at lower margins (28%) than traditional home centers. The results: sales per square foot of $200, nearly double the industry average, and annual store volume as high as $20 million per unit.

He buys direct, favoring national brands, and has goods drop-shipped to store floors. In Home Depot's aisles, framed by 15-ft.-high stacks of palletized merchandise, shoppers must sometimes dodge forklifts.

Marcus is currently seeking greater chain productivity by installing a chainwide POS system, and attempting to trade customers up to higher-ticket goods, including $1,400 chandeliers and $2,700 spas.

But, his plans are generally to stick with what got him here, colleagues said.

Many contend that Marcus's strategic planning talents match his more popularly recognized knacks for communicating and motivating with a blend of charm and chutzpah.

He transmits his energy throughout Home Depot by visiting stores unannounced almost daily, is known to load stock at store *openings just* for fun, and has his senior management run training sessions for store managers and assistant managers, said colleagues.

"Bernie is like Sam Walton. He's always on, gets in the trenches, and isn't hung up on his office," said Tom Tashjian, analyst at Prudential-Bache Securities.

Indeed, Marcus, who gets the most from people by emphasizing what they do best, once said that assembling his top management team "was probably my greatest accomplishment." They are: Arthur Blank, 41, president and coo; Patrick Farrah, 40, executive vp-merchandising; Ronald Brill, 40, vp-finance and treasurer.

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**Data on file, Burroughs Wellcome Co. (Unit and dollar sales, 12 months ending June 1984)
***Data on file, Burroughs Wellcome Co. (Doctors: July 1983-June 1984; Pharmacists: Sept. 1984 American Druggist, Open Call)

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Arthur Frankel, seated in his office, symbolizes Pic 'N' Save's contrast. His open-neck shirt illustrates informality while the computer terminal on the desk denotes the high-tech operation. *(DSN photo)*

Frankel: 'We Buy A One-Shot Deal All the Time'

By ARTHUR MARKOWITZ

CARSON, Calif. — The roots of the $227 million Pic 'N' Save closeout specialty store chain can be seen on the streets of New York City today: go-getters surviving by selling anything they can buy cheaply.

In the early 1950's, survival for Navy veteran Arthur Frankel meant working as a lathe operator during the week and on weekends selling Army surplus goods or anything else he could find in New Jersey flea markets.

Today, Frankel is president and chief executive officer of Pic 'N' Save, a Carson, Calif.-based company he helped build from Freight Outlet, a two-store operation owned by his cousin, chairman William Zimmerman. From that the two built the nation's leading closeout specialty retailer.

Zimmerman, a New Yorker, had followed a similar path after World War II. Settling in Los Angeles, he worked as a welder by night so that he was free during the day to buy salvage goods—closeouts and leftovers from manufacturers which he peddled to small retailers.

Zimmerman soon found that these retailers were taking the best of his goods, leaving him with slower moving items. He opened his own store to balance out the business, but continued spending his days searching for merchandise while his wife ran the store and the family lived in the back.

In 1955, when there were two Freight Outlets, Zimmerman asked his cousin to join him. Frankel borrowed the air fare, flew to California and was at work the next day, buying some merchandise, moving goods between the stores and running the two units. In the following spring, they opened the third Freight Outlet, also in the Los Angeles area.

Those early days, with the survival of the fledgling business at stake, should have been the low point for Frankel.

Sitting in his office in the informal manner that is a company hallmark, in an open neck shirt, without tie or jacket, with executives and other employees easily coming and going, Frankel looked back almost three decades ago and recalled:

"There never was a low point. Everything was upbeat, upscale, intriguing, interesting, challenging; we were never discouraged by things not going right."

The reason why was "experience, the experience of surviving," he explained.

The Key

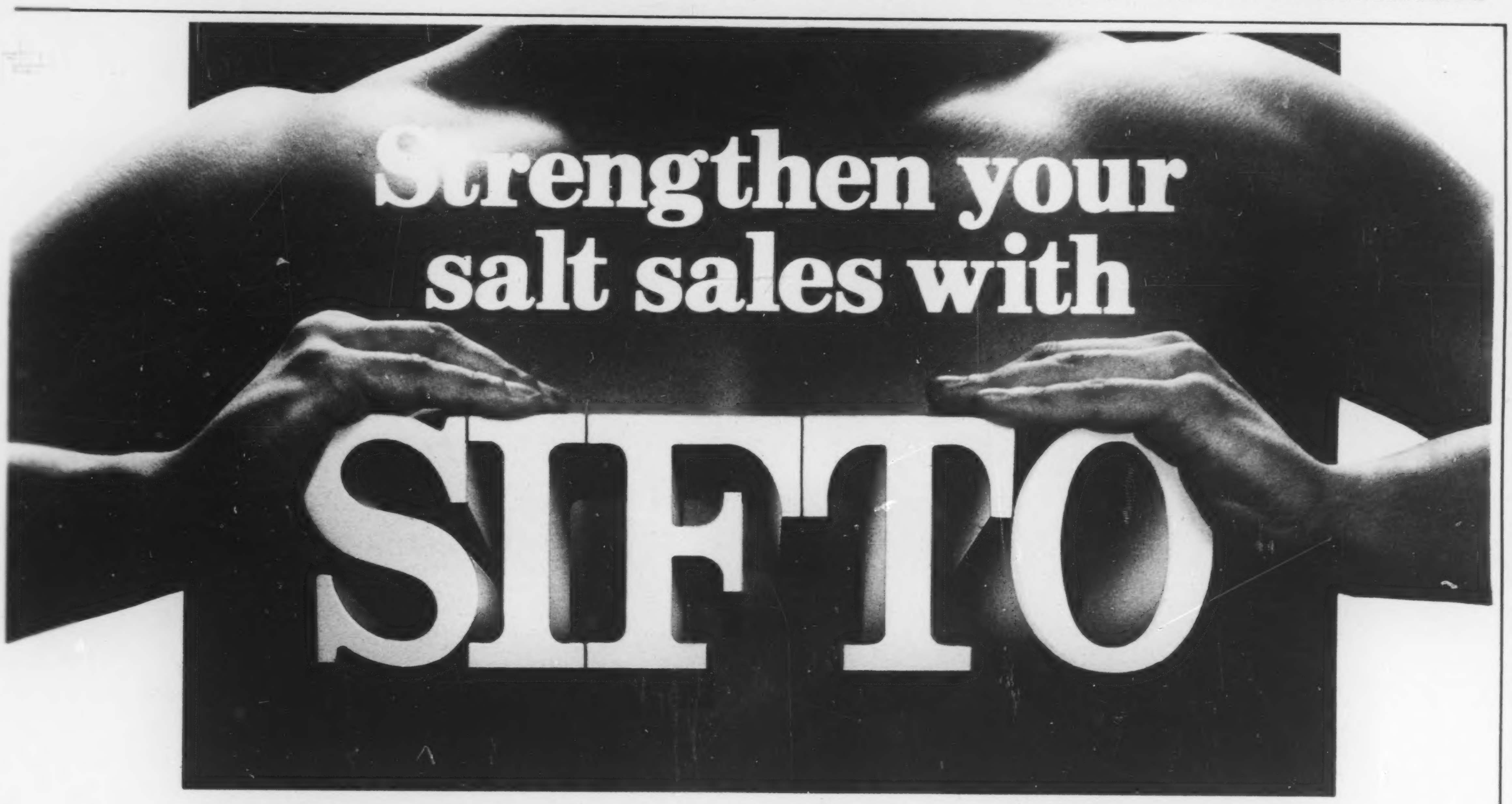
"We haven't deviated in all these years to any degree from what we learned and knew in the early days. That's the key to the success of the business. We have learned how to do things a little better, a little smarter. We're now working less strenuously with our backs and more with our minds. But we are still doing the same thing we were doing 30 years ago, just better."

His perception of his customer hasn't changed much either: "I'll take my chances that the consumer today, like then, is to some degree price motivated and bargain conscious. She also likes the experience of going into a store and finding something she hadn't expected and because it's a bargain can't pass it up."

What Frankel and Zimmerman did then and what company merchandisers are doing today is to first decide if customers will buy an item and how much they will pay for it. "If I were a Pic 'N' Save shopper walking through the store, with no intention to buy this commodity, what would I pay for it?" is how Frankel summed up the merchandising idea behind the company's buying.

Each item has to be judged on its own merits. "Ninety-five per cent of the merchandise

(Continued on page 50)



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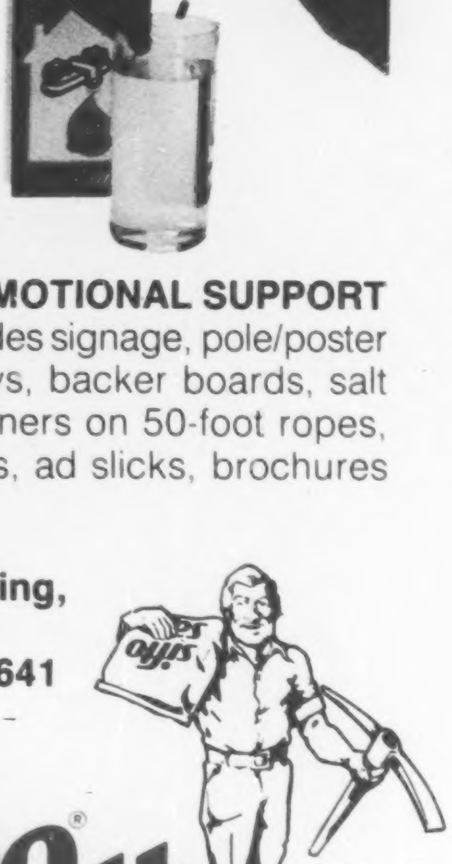

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Closeout Giant Frankel Sticks to His Roots

(Continued from page 46)

you'll never see again. We're buying a one-time deal all the time," he said.

Each offer of merchandise "is like a brand new world, like it never occurred before. Only experience can tell you how to judge. We probably sell 250,000,000 items a year overall, and we pass by much more than that."

This type of buying means merchandisers are purchasing items, rather than lines and programs. A buyer has to first unlearn the traditional buying process.

Pic 'N' Save has trained most of its buyers in-house, Frankel said. "They learn Pic 'N' Save first and buying second. It's a growing process in which they start out making minor decisions and get confidence in themselves."

With the unique nature of closeout buying, merchandisers "are on the line every second of the day." Thus "my buyers are compensated more than traditional buyers for Macy's—they also run around with a much bigger checkbook. We don't buy by committee, so they have the autonomy to make decisions and they better know what they are doing. Of course they can—and do—get input and corroboration when they need it."

Even though a Pic 'N' Save merchandiser is on the line all the time and too many mistakes could cost his job, Frankel noted that "with maybe one minor exception, we haven't lost a buyer since we started. Buyers are the key to the business and I've got to keep them happy, because they're worth keeping happy. The one that we lost wasn't worth keeping."

The driving force behind Pic 'N' Save, Frankel said, has always been the challenge of never knowing what item, what deal, what opportunity will come through the door.

"To me, personal satisfaction is uppermost in any endeavor. I get my kicks from the challenge of this business, from the decisions in buying and selling, in moving one way or another; being involved in those decisions to me is creativity. That's what motivates me and what probably motivates the top management of this company," he asserted.

Despite rising competition, Frankel doesn't see any problem in continuing to get closeouts, noting more and more sources now offer goods to the company. About a half dozen years ago, Pic 'N' Save merchandisers had to search out about 50% of the merchandise the company sold, but now about 80% of the goods comes from manufacturers who directly contact the company.

Once the basic decision is made on whether a shopper will buy an item and for how much, the rest of the process follows:

Frankel said that Pic 'N' Save's retail price has to be at least 40%—preferably 50%—less than what the item would normally be sold for. "If I can't sell it for under 40%, I won't touch it," he added.

The buying decision is made relative to what the company's retail price will be. The merchandise has to be available for no more than half Pic 'N' Save's retail.

The end result of all the computations is that the company aims for a 48% to 52% gross profit by generally buying goods for 25% of the retail price and selling them at 40%-50% of retail.

What Pic 'N' Save is doing better and smarter today is making sharper real estate deals, often for recycled stores and low rentals; controlling distribution costs by replacing 450,000 sq. ft. of distribution space in four separate buildings by a new $25 million, computerized 800,000-sq.-ft. distribution center in Rancho Cucamonga, Calif., about 50 miles from Carson; making its stores more productive, and becoming even more flexible and opportunistic in its buying.

Over time, Frankel has become heavily involved in Pic 'N' Save's financial and operational growth, while still keeping his hand in the buying process.

"Bill [Zimmerman] and I were doing all the buying at the beginning. As the company grew and we could afford to hire a truck driver, I was doing 10% or 15% of the buying and Bill was doing the other 85%. The balance kept on coming down as other duties had to be performed and I more or less stepped into an administrative role, since he had better expertise in buying and I had better expertise in the other areas."

Interest Is Building

The company's growth into a $227 million retail operation has made it a highly desirable anchor for small shopping centers and it has been getting more attractive site offers. It owns about 20% of its stores, and is now able to get units built to its own specifications.

Its prototype store is about 25,000 sq. ft.—20,000 sq. ft. for selling, with a 160-ft. front for high visibility. Units are being spotted close to or in middle-income neighborhoods, and the chain appeals to households ranging from $10,000 to $100,000 in income.

Before the new computerized distribution center was opened, Pic 'N' Save handled about 5,000 sku's in the smaller warehouse and turned goods 3.1 times in 1983, a 14.8% jump from the 2.7 times in 1982.

Unveiling stores in more affluent areas along with the more flexible and opportunistic buying has boosted store sales so that the average volume for a store opened during all of 1983 hit $2,743,000, up 22.9% from $2,231,000 in the previous year.

A Pic 'N' Save buyer now wields a bigger pen, Frankel said, citing a telex from one merchandiser who spent $4.5 million the previous day during an overseas buying trip.

Flexibility has always been a "key word in our business," he added, "even though the original concept, the criteria and the fundamentals haven't changed."

(Continued on page 69)

Pic 'N' Save Net Rises as % of Biz

Year[a]	Sales (millions)	Net Earnings (millions)	Average sales per store[b] (thousands)	Net earnings as % of sales	Net return on average equity
1978	$ 63.4	$ 6.9	$1,175	10.9%	26.6%
1979	85.3	10.3	1,394	12.0	30.7
1980	113.6	14.7	1,614	13.0	32.9
1981	133.1	18.5	1,779	13.9	29.9
1982	177.7	27.0	2,231	15.2	31.8
1983	227.1	36.5	2,743	16.0	31.0
1984[c]	99.3	14.2			

[a] Year ends Dec. 31. [b] For stores opened during a full calendar year. [c] For six months ended June 30, 1984.
Source: Annual reports

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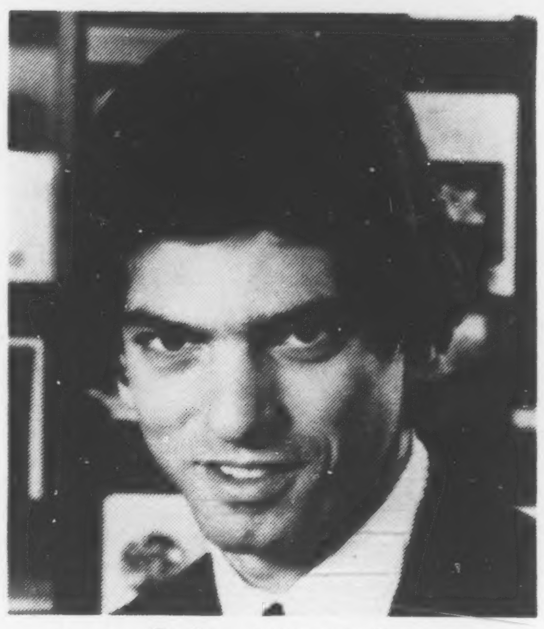
Controversial Haft, 31, Creates 1st Natl. Discount Book Chain

LANDOVER, Md. — A common dream among fathers is to take a son into the family business.

Robert Haft, 31-year-old son of Herbert Haft, 63, the founder of Dart Drug, had a dream of his own, however. Following in his father's footsteps as a retail innovator, he created Crown Books, today the retail jewel in the entrepreneurial Haft family holdings.

Crown Books, at nearly 200 units, has emerged as the first national discount book chain, giving full-mark-up giants Waldenbooks, now owned by K mart, and Dayton Hudson's B. Dalton a serious run for their money. Last year, Crown hit $91 million in sales, still a fraction of the $8 billion book market but way ahead of the $6 million it range up in 1978, its first year. Profits over the same period have gone from $178,000 to $4.9 million.



Robert M. Haft

Crown Books' successful formula hinges on: 10,000 titles, no-frills service and 10% to 50% discounts.

—Tom Tashjian, analyst, Prudential-Bache Securities

Largely because of Crown's flourishing, Dart Drug (which together with West Coast-based Thrifty Corp. controls 68% of Crown; the remaining 32% is publicly held) recently sold off its 74 drug stores and home centers in the Washington, D.C., and Richmond Metropolitan Areas. The Hafts sold the drug division for $160 million in a leveraged buyout deal led by Alvin Towle, the company's former president and now chairman of Dart Drug.

The Hafts have renamed their company Dart Corp., and are pegging its future on the expansion of its two main discount divisions, Crown Books and Trak Auto, an 100-unit auto parts chain.

Dart, with its razor-thin top management, for some time has given the appearance of being run like a private company. The Hafts, who refuse to speak with the press, own all voting shares. The lines of upper management are short: Herbert, Robert and Ben Kovalsky, a long-time Dart merchandising executive who recently moved over to head Trak Auto, run the show.

The Hafts also own and operate a discount wine and beer business in Washington, a few health & beauty aids discount stores in Richmond and a real estate company with some 20 shopping centers. None of these diversifications have been successful to the same degree as Crown.

The Background

Crown got its start in the late 70's, while Robert Haft was a student at Harvard. Inspired by the Cambridge, Mass., outlet of the New York City-based Barnes & Noble discount book chain, Haft developed a business plan for a national discount book chain which he presented to his father. In this case, the term "parent company" took on a literal meaning.

Since the first store opened in Landover in 1977, growth has been rapid. Today there are 39 stores in Washington, 25 in Chicago, 55 in Los Angeles and another 50 in San Diego, San Francisco, Houston and most recently, Seattle.

Not since the explosive growth of B. Dalton and Waldenbooks in the early 1970's had anyone caused such an uproar in the historically staid book business. By deep discounting *The New York Times*-listed best sellers by 35% and other titles from 10% to 50% on so large a scale, Haft changed the book business forever.

Indeed, Haft's concept has proved so successful it has prompted large diversified retailers like K mart, Dayton Hudson and, to a lesser degree, Rite-Aid, to all eye the format. K mart's recent acquisition of

(Continued on page 54)

10
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Bill Gallo

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Haft Follows in Father's Discount Footsteps

(Continued from page 52)

Waldenbooks has the industry speculating about a discounter spinoff. Dayton Hudson's two dozen Pickwick Books, piloted in Columbus, Ohio, and Rite-Aid's recent purchase of 19-unit Crown-look-alike Encore Books, in Philadelphia, are both aiming for national growth.

"There are a lot of markets Crown is not yet in. The book segment is relatively devoid of discounters and there's a lot of fertile country out there," said Alex Grass, chairman and president of Rite-Aid.

Despite being both innovative and successful, Haft has made few friends along the way, according to industry sources.

Publishers and rival retailers refused to speak on the record about him and, his company's success notwithstanding, many of the book industry executives expressed only negative sentiments about the man and his operation.

How Dart's Deals Accompanied Crown Books' Growth

Year	Crown Books' Sales (millions)	Crown Books' Net Earnings (millions)	Parent Dart's Highlights
1982	$61	$2.3	Sold 50% of Trak's western operation to Thrifty Corp. for $5 million.
1983	91	4.9	In April, spun off Trak in first public offering, raised $38 million. In August, spun off Crown Books, raised $58 million.
1984	48*	1.6	Sold Dart Drug division, 74 stores, in leveraged buyout for $160 million.

*Six months ended 7/31/84.

Source: DSN research

By most observations, Haft appears immune to the criticism in that it hasn't altered his behavior or modified growth plans. Some reason it's because he's heard it all before—about his father, who was one of the pioneers in discount drug retailing. The older Haft had to weather the storm waged by his higher-priced competitors and fixed-priced-minded suppliers. What his father did for OTC drugs, Robert Haft, the second of three children, is achieving for books.

They come to retailing, however, from different directions.

His father is a self-made man who founded his empire on the pharmacy he opened in Chevy Chase, Md., where his mother worked as a cosmetician. Slowly, the Hafts branched out and by 1977 had grown to 74 stores, ringing up $172 million in sales. Those who give the senior Haft credit for his achievements, however, are less generous with the son even though his business credentials are founded on solid training.

Robert, who graduated from the University of Pennsylvania's Wharton School of Finance and got a Masters degree from the Harvard School of Design, gathered practical retailing experience working summers at his father's drug chain. In 1981, at age 28, and already president of Crown, he became president of Dart; his father moved up to chairman. (Last year, Robert earned $554,000 as Dart's president and $83,000 as Crown and Trak's chief operating officer. His father's compensation topped $1.7 million as Dart's chairman.)

Despite his background, some detractors suggest that "Herbert holds all the purse strings. He might also be pulling all of Crown's strings," according to one cynical competitor.

But Robert Haft laughs it off. In infrequent interviews in the past, Haft has said he chalks those remarks up to jealousy, to sitting on top of an industry at such a tender age. His supporters said, make no mistake about it, he is not just a rich man's son. They say Haft junior is a sharp retailer in his own right and they note he's been extremely creative in financing the growth of his chain.

In 1981, he sold Thrifty Corp. 50% of Crown and the rights to own and run stores in the West for $12.1 million. In 1982, Thrifty paid $5 million for 50% of Trak's western operations.

Last August, Crown raised close to $60 million in its first public offering (2.5 million shares) which it will use to double chain size to well over the 300-unit mark by the end of 1986. The chain will grow at a pace of approximately 50 new units annually, according to Crown quarterly statements.

As the head of Trak, Haft sold off 33% of its stock to raise $38 million and fuel its expansion.

In merchandising, Haft has applied the basics of discounting: he supports deep discounts (of 35%) on highly visible titles—*The New York Times*-listed best sellers—and backs that business with a large selection of remainders (up to 40% of total sales) where margins can often exceed 100%.

New-Store Plans

Each Crown Book store carries 10,000 of the most popular titles. His critics say Crown hurts the industry by focusing on the most popular selections with little regard for title longevity, but Haft asserts Crown has built book sales in every new market it has entered by attracting millions of new customers.

"Bookstores are very intimidating to a lot of people. I wanted to make it unintimidating. People shop in our store who've never been in a book store before," he's been quoted as saying.

Books are displayed face out at Crown, a book merchandising technique now widely copied; overstock is piled on the floor. Best sellers are strategically located on the back wall of each 3,000-sq.-ft. unit to encourage customers to first browse through the large remainder section, "Books For A Buck, Two Bucks."

Like other discounters, Crown also stresses self-service. Store personnel stay behind cash registers or restock shelves. They offer no special services like giftwrapping or mail order.

The stores are predominantly located in strip centers in-

(Continued on page 69)

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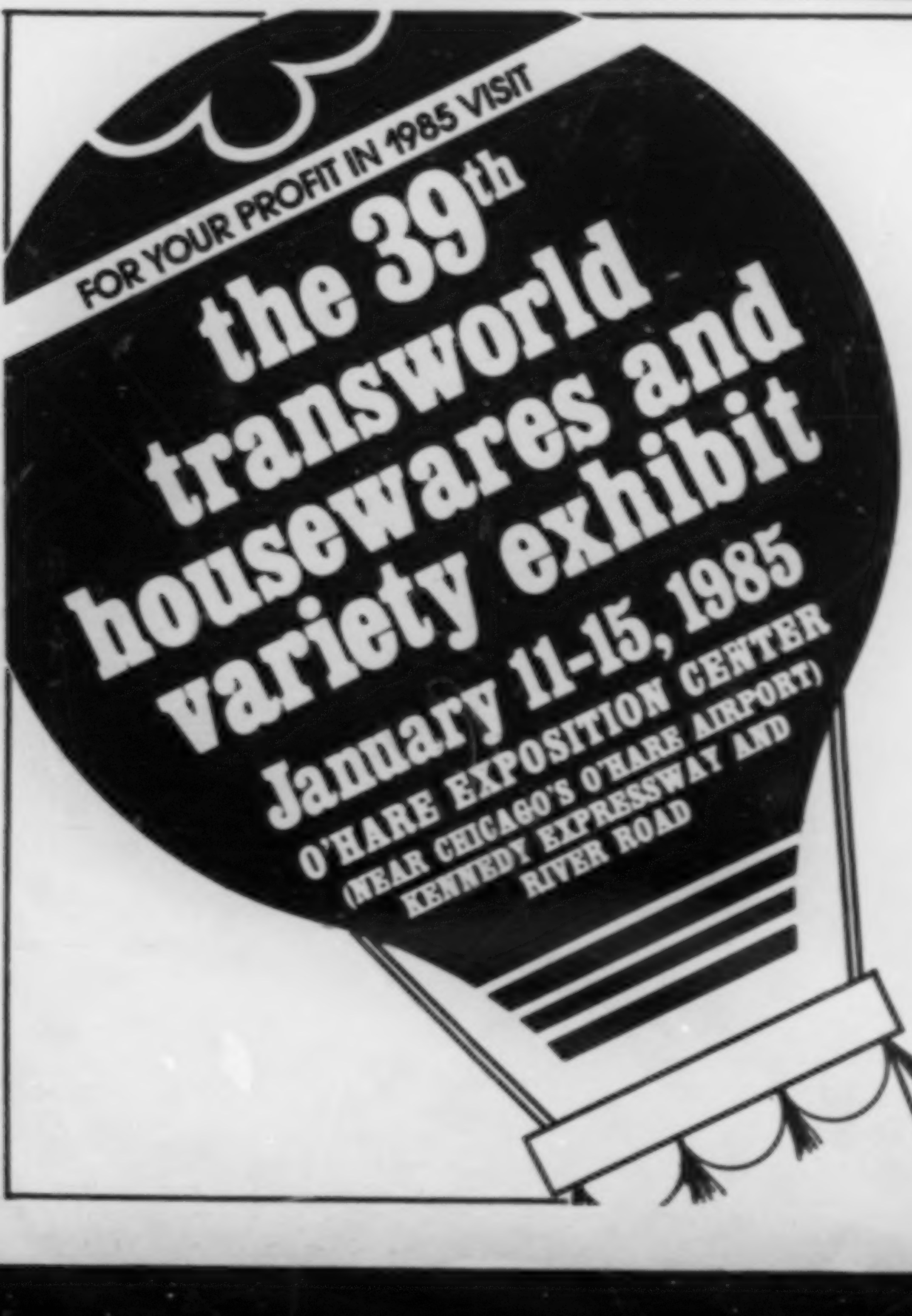

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Frank Brings New Meaning to 'Upscale'

Harold Frank

BRAINTREE, Mass. — Harold Frank could have been a fish out of water as a former department store executive working within the limits of a discount store format in the late 70's.

Instead, Frank made his mark on Bradlees by successfully directing the tide from basic piperacks to fashion oriented merchandise and displays.

Through Bradlees, Frank gave new meaning to the term "upscale" for the entire discount store industry.

Department store-bred discount chains including Target, Richway and Clover had previously defined upscale for competitors by sharp housekeeping, higher-price-point basics and use of department store fixtures such as circular racks in apparel.

Mechandising concepts such as shopification, fashion focus and lifestyle organization took definite shape within the walls of Bradlees, in the years after Frank joined as president in 1977.

Back lighting, valanced fingerwalls and even video monitors are now established parts of Bradlees' visual vocabulary and have been also picked up by several discount chains looking to improve their fashion presentation.

Some say it was simply a matter of Frank's being in the right place at the right time: Stop & Shop had defined the direction for its Bradlees division and had hired a department store veteran to get the job done.

But those who have worked closely with him and discount store competitors agree it was Frank's clear vision of what Bradlees could become and his determination to stick to that plan that made the difference.

More specifically, chain insiders say, he created an environment that encouraged—or forced—buyers to create fashion excitement in the mass-display format in both hard lines and soft.

"He gave us the courage to make the switch," one Bradlees insider recalls.

Those who couldn't share in Frank's vision, another insider added, are no longer at the company.

Adding It Up

Reformatting the stores didn't come at the expense of unit growth. In fact, while chain volume had jumped 22% for the first nine months of this year, store-for-store sales were up by only 10%—indicating that most volume growth comes from expansion rather than upgrading.

Since 1982, accelerated expansion included a purchase of 11 former Two Guys stores, seven of them clustered in central New Jersey; a single unit in Richmond, and 10 former Memco stores in the Washington/Baltimore area.

As a result, Bradlees' volume rose to close to $1.2 billion last year. The chain is within sight of hitting the $2 billion mark by 1987—a figure Stop & Shop projected earlier.

While one industry observer says Frank simply went in and cleaned up Bradlees' stores and concentrated on prime expansion deals, those inside the chain say he's altered the way of thinking, changed the corporate culture.

Today, Bradlees' merchandisers have a new attitude, one insider explained: "We no longer think of a top lid on our budgets. We used to say, for instance, 'My category does $6 million a store,' but now we constantly look for ways to get more out of a department."

The industry's hunch that Frank might have been happier in a department store gained credence late in 1980, when he returned to A&S as executive vp. He worked at the New York-based chain, where he previously had tenure, for six months, but family considerations sent him back to Boston and his still-vacant position at Bradlees.

The offers haven't stopped for Frank. Last fall Associated Dry Goods reportedly tried to woo him over as chairman of its hard-lines-oriented Caldor chain. Although neither Frank nor ADG confirmed that report, Frank's recent appointment to the Stop & Shop board of directors is generally considered by industry observers a sign of a persuasive counter-offer.

Lasker Meyer, who as chairman had lured Frank to A&S that second time, noted three reasons Frank is in demand. First, his varied background at A&S, Macy's, New York and Gold Circle. Second, a management style that keeps him liked by those who work for him. Third, Frank is "powerful in his beliefs."

The power of Frank's beliefs came across loud and clear last year at an annual discount industry gathering. "Bradlees is not a discount store," Frank told close to 500 suppliers and retailing peers as he accepted *DSN*'s discounter of the year award. "We're a budget department store."

Other discounters agree that Bradlees is no longer a discounter. It gets 60% of its business from soft lines, invests more in display and stresses higher-margin fashion items in hard lines areas such as housewares.

Frank's market niche is not an arbitrary one. He has explained on several occasions that Bradlees is going after the business that Sears and Penney deserted in their efforts to trade up. That identification of a store between discount stores and department stores went out to shoppers last year as Bradlees entered Washington, D.C., for the first time as "the department store with a difference."

Setup Is Refined

With the merchandising course set, Frank today is less visible in the merchandising operations at Bradlees. He has empowered a team, many of whom have department store experience at A&S, to continue to build on the direction he established.

The current organization took about two years to evolve. In 1982 the position of executive vp of merchandising was created. Harry Kohn—another A&S graduate, who joined Bradlees in 1979—was moved from soft lines vp to fill that new spot.

At the same time the number of vp/gmm slots was expanded from two to four: Merrie Ryan and Lynn Baker—two other former A&S merchants—were named to two of the posts, and Bradlees veterans Jim Hyman and George Granoff were named to the other two.

Last year, when Frank was elevated to chairman, Harry Kohn was named president. At

(Continued on page 60)

Bradlees Sweeps Past the $1B Barrier

Year	Sales (add 000)	Profits (add 000)	Stores
1979	$ 540,057	$28,199	83
1980	634,286	15,720	89
1981	718,790	25,940	91
1982	871,636	50,474	106
1983	1,182,815	80,460	127
1984^A^	914,000	—	132

^A^Sales for 39 weeks ended Oct. 27.

Source: Annual reports.

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Emphasizing fashion instead of price points prompted Bradlees to add display walls and slat-backed fixtures starting in 1981. In Watertown, Mass., tabletop, including soft goods, is still being expanded. *(DSN photo)*

Frank

(Continued from page 56)

that point Frank's priority became to oversee the chain's expansion efforts while Kohn continued to work closely with the merchandising brass.

All four vp's as well as Kohn and Frank were on hand last month when Bradlees unveiled its latest state-of-the-art store in Framingham, Mass. Frank walked the store with Stop & Shop chairman Carol Goldberg and later with the director of store design, closely examining new lighting fixture, spotlights on mannequins and new fixtures.

The merchandising executives were speaking in terms of their objectives to see their fashion goods receive fashion treatments on the selling floor—something they have been working on in cooperation with store planning.

"We tell our buyers to jump on the fashion trends as closely as possible to the department stores, so that in most cases we can have the same looks they do," one vp said.

Merchandising vp's also expect a store environment designed to help sell those fashion goods; that is part of the direction Frank established.

Frank's commitment to updating store presentation along with merchandise gained momentum by 1981 when walls were used in ladies' apparel to separate "shops," and hard lines "shops" were also unveiled in Hingham, Mass. In that store segregated areas were created in hard lines by canopies signed "living," "kitchen" and "housewares." In that store the chain first began to cut down its use of gondolas and increase lighted walls and bulk displays on low pedestals.

That Hingham store became Bradlees' model for several stores opened in New Jersey and New England the following year. In New London, Conn., that year, Bradlees began to refine its home store concept, focusing further on the fashion of appeal of soft and hard items for the home.

New Approach

In 1983 the home store concept was unveiled in East Hanover, N.J., with valanced walls and back-lit displays helping the upgrade. That concept included a bath shop, bed shop, window, living and tabletop shop, each as a separate focus area.

By the time Bradlees hit Washington late in '83, video monitors in five departments, a Barnes & Noble book department, oriental rugs and leased beauty salons were part of the shopping environment.

The fine-tuning goes on: This year the chain upgraded its restaurant with expanded menus and continued to expand tabletop housewares as a fashion section including soft goods in its Watertown, Mass., store.

Most recently, Bradlees launched a new MTV-inspired juniors department fashioned after Limited Express, a greatly expanded accessories area with handbags, millinery, jewelry, casual hosiery and sheer hosiery displayed under spotlights in the infield.

Framingham takes another step in the evolution of housewares to a fashion category, this time with almost no gondolas at all.

The Bradlees thinking calls for continuation of change and refinement, a constant improvement of presentation and testing of higher-priced fashion items.

"We're watching this store and planning the next step," one merchandising vp said.

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Fauber Isn't Afraid to Delegate

(Continued from page 18)

fort.

But once programs are under way, he lets them run, his colleagues said. "Store visits are his best feedback mechanism," said a store planner.

To keep the feedback coming, Fauber conducted 250 surprise store visits this year with a brass team from Troy. "He doesn't want to spend three years developing store layouts and planograms, and find store managers not conforming. Everyone knows they can be seen anytime," the store planner added.

Not everyone in the field has accepted these new disciplines easily. Despite Fauber's roots in store management and the positive changes he's fostered, many store managers "fear that K mart's historic family feeling is being displaced by an emphasis on numbers," the planning executive said.

And, there are some store managers who say they perceive little response from Troy to individual store problems, recalling personnel shifts after earlier visits when the brass team was dissatisfied.

Despite some disaffection in K mart's field staff, the vast sweep of in-store changes has prompted competitors to watch K mart more closely for presentation and assortment ideas.

Concept Hailed

K mart's Kitchen Korners, for example, have produced 40% sales gains and 1.5% gross margin improvements in the department's performance. "They're ingenious and economical," one northeastern chain vp raved.

With all that he's done, however, insiders and outsiders note that Fauber has made no obvious efforts to groom a successor, though he's just three years away from mandatory retirement.

Like Harry B. Cunningham, Fauber will move onto the board of directors where he can play a major behind-the-scenes role, K mart watchers suspect.

Cunningham, the individual generally credited with transforming the company from a variety store chain into a discounting powerhouse, was involved in every major corporate decision from 1972, the year of his active retirement as chairman until 1982, when he left the board, chain executives have long acknowledged.

In fact, Cunningham continues to influence K mart, as Fauber regularly consults with him on all major plans, said one current board member. That relationship goes back to 1965, when Fauber was Cunningham's executive assistant. Later, Cunningham was instrumental in Fauber's move onto the chairman's seat following Fauber's success out West

Wall Street noted that Cunningham gave Fauber another vote of confidence when he bought 50,000 shares of K mart in 1981 for his own account.

Fauber worked as a Kresge stock clerk earning $12.50 a week in the Depression to help support his parents. As he rose at K mart, "I looked only at the job I held . . . Do good where you are and you will move on up," Fauber told a reporter in his hometown Roanoke, Va., where he grew up the son of a dairy driver.

Price Combines Acumen and Morality

(Continued from page 40)

was to be a discount store for small businesses and he would pass on the savings to them from the better buying and lower operating cost experience gained at FedMart," he said.

While his associates agree that Price has mellowed since his hard-driving, tough taskmaster days at FedMart, he still has the same principles and convictions and is as sharp and astute in his observations of retailing and his own business.

One source with another wholesale club said: "It's much tougher for me because I don't have a Sol Price image to lead the pack. His name is a legend in the California market. His reputation exceeded his following. At FedMart he ran a clean operation, he sold top quality merchandise at low prices, he fought Fair Trade, he was always on the consumers' side."

Another source explained: "He is consumer oriented, trying to see things from the consumer's viewpoint. While he didn't have a merchandising background, he has always felt that the best way to be a good merchant is to be a consumer and to have that focus."

A third recalled his days at FedMart: "I remember him threatening to fire me because I was too successful on a promotion. I bought a big consumer electronics closeout and sold out in one week at a 50% gross when we were probably running electronics at about a 25% margin. He just raised holy hell that I went up on margins so much; the benefit should have been passed on to the consumer."

And the recollection of another: "I remember in board meetings he'd say: 'We don't deserve to make that much money. I want margins cut.' That was a moral judgment, not a businessman's judgment."

But, the source added: "On the other hand, it might have been a businessman's judgment, because if we lowered our prices, lowered our margins, we would be that much leaner, be able to survive competition and be around much longer. But it was presented on his side very much from a moral perspective."

That forthrightness has generated deep awe among retailers who have worked with Price.

Price has downplayed his stance at the Price Club, instead letting the focus on attention fall on his son and successor, Robert.

However, Sol is still seen as the driving force at Price Club, even if he is doing it from the wings, rather than center stage.

Robert, at 41, 26 years younger than his father, has been trained and molded by Sol, one source said. "What makes Robert successful is that he firmly follows Sol's philosophy."

Another noted: "Robert isn't as dynamic as his father. Few people can be. But Sol's momentum has become so strong, it will keep on going."

Summing up, another said: "Without a doubt, Robert is a superior intellect. When you work with a genius for 20 years you better have something. As for Sol, probably the hardest thing for him to deal with now is the true reality of mortality. He'd probably trade all his wealth for youth."

Lazarus's Next Goal: $2 Billion Sales

(Continued from page 31)

he wouldn't be the first to volunteer."

Lazarus has also made a lot of money for a lot of people. By hitting chain goals, many TRU executives are today millionaires. Store-level personnel, through profit sharing and stock option programs, have also profited handsomely. Last year, 1,400 employees were granted a total of 781,026 options.

But, the chain had a bumpy start. After transforming his father's bike shop to a juvenile furniture business and then to a pure toy mix, Lazarus sold his four-store operation to Interstate in 1966 for $7.5 million in cash. The chain grew to 47 units under the Interstate umbrella but the move almost proved to be disastrous.

Interstate, the parent company of Topps and White Front discount stores, declared bankruptcy in 1974, primarily due to poor management and misguided expansion. As Interstate was being pieced out to its creditors, Lazarus, then described as "the tail that wagged the dog," fought to keep control of his company.

During the bankruptcy, TRU continued to grow and in 1978, the chain emerged from the Interstate self-destruction, 63 units strong and Lazarus has since paid back all creditors and banks 100%. The stock issued that year has seen a 20-fold increase. It has split three for two in each of the last four years and is currently hovering near its high of 52⅞.

Strengths Examined

As TRU's stock climbs, Lazarus is poised to lead his company into the 21st century and he leads by example. Blessed with a dynamic speaking ability, he is not adverse to getting his hands dirty—if they're needed to help straighten up product on shelves. His philosophy is "nothing can't be accomplished" and his intensity is the thread running through TRU, from top to bottom. Despite the casual appearance at headquarters, employees "would walk through glass for him," said an ex-TRU store manager.

This attitude has helped result in more productivity—comparable-store sales were up 13.5% last year, 19.5% in fiscal 1983 and 16.3% in fiscal 1982. TRU has increased its market share 1½% in each of the last four years, which all translate to Lazarus' bottom line goal—more.

Although it is purely speculation, people who know him say Lazarus admires other overachievers like himself. One of these people, Sam Walton, named him to Wal-Mart's board of directors last summer, the only board Lazarus sits on besides his own.

"I teased Charles: 'Now that you're on Wal-Mart's board, does that mean you've given up on entering their territory? It's inconsistent with your philosophy. It's unlike you to give up on getting more,'" said Loomis. "Charles said, 'Walton has more.'"

At least, for now.

Frankel Sticks to Roots

(Continued from page 50)

The opportunity presented to a buyer still has to return a profit.

"We happened to be offered a closeout of 36,000 cases of wine by a major producer who happened to market his product unsuccessfully. We took a gamble and bought the goods, contingent on getting liquor licenses for the store. In recent years we probably go through 100,000 cases of wine a year and wineries keep coming to us with the overflow."

The first buy "was just a gut-felt decision. Here's a bottle of wine that sold for $5 or $6. We looked at the packaging, we tasted the wine and said we could sell it for 98¢ a bottle, based on our usual margin, and we did."

While sticking to Pay 'n Save's origins, the company has slowly evolved a more formal management structure. Neither Frankel nor Zimmerman are business school graduates, so a large part of the early growth was due to practical experience. Today, however, a growing number of top executives have business school degrees, including Arthur Borie, executive vice president and chief operating officer, and Bill M. Thomas, executive vp and chief financial officer.

Frankel is proud that the chain has retained its informality while becoming more professional—and all the time using practical experience to grow.

He related an incident involving his son, Richard A. Frankel, vp-merchandise manager, who is a Texas A&M graduate with a degree in business administration:

"One day shortly after Rick graduated he was in the office and heard a conversation. Rick said: 'I didn't learn that 'til my senior year in college.' I told him: 'It took me 20 years to learn that; isn't it better to learn in college and then be able to put it into practice right away?'"

Jamesway Executives Are Honored

NEW YORK — Herbert Fisher, chairman of the board of Jamesway, and Arlie Lazarus, its president, each received the Eleanor Roosevelt Humanities Award at a national industry dinner held Nov. 11 at the Waldorf Astoria hotel, in association with State of Israel Bonds.

More than $3.75 million in Israel Bond securities were purchased during the event.

Before more than 650 leaders in the retailing industry, the two Jamesway executives were presented with their awards "for outstanding service to humanity and devoted friendship and support for Israel in the spirit of Eleanor Roosevelt."

Herbert Rosen, president of Spencer Companies, of Boston, served as national dinner chairman; Brendan T. Byrne, former Governor of New Jersey served as honorary chairman.

Jamesway's Herbert Fisher (center) and Arlie Lazarus (top, left) received the Eleanor Roosevelt Humanities Award. With them were Herbert Rosen (top, right) of Spencer Companies; Gov. Thomas Kean of New Jersey (bottom, left), and former Governor of New Jersey Brendan T. Byrne.

Thomas H. Kean, Governor of New Jersey, was the principal speaker. Ambassador Aryah Levin, Israel's deputy permanent representative to the United Nations, offered his greetings from the state of Israel.

Discounters vs. Old-liners

Department	Cum. Markup Disc. Store	Cum. Markup Dept. Store	Markdown Disc. Store	Markdown Dept. Store	Stock Shortage Disc. Store	Stock Shortage Dept. Store	Gross Margin Disc. Store	Gross Margin Dept. Store	Turns Disc. Store	Turns Dept. Store	Sales as % of Total Volume Disc. Store	Sales as % of Total Volume Dept. Store
Women's Dresses	44.3%	51.1%	18.4%	24.8%	3.0%	3.7%	34.1%	41.8%	4.5	3.8	1.1%	3.4%
Lingerie, Robes, Sleepwear	44.1	52.4	9.3	11.1	0.9	1.7	38.2	51.4	3.8	4.0	2.5	2.9
Men's Wear	42.3	50.4	11.2	14.4	1.3	2.2	35.0	43.8	3.9	3.1	6.9	12.8
Girls' Wear	45.2	51.4	13.8	19.6	0.9	1.9	36.6	45.4	4.3	3.9	2.3	1.9
Boys' Wear	42.8	48.2	11.6	15.8	0.4	2.2	35.3	41.2	3.6	3.0	2.5	0.4
Infants' Wear	36.1	50.4	8.4	14.7	0.7	1.6	30.3	46.1	4.1	3.4	2.8	1.3
Domestics	41.4	45.8	11.6	10.7	0.9	1.2	34.1	41.9	2.8	2.1	5.2	3.5
Automotive	33.3	NA	9.7	NA	1.5	NA	25.7	NA	2.9	NA	4.0	NA
Hardware	37.8	NA	9.0	NA	2.3	NA	31.0	NA	2.6	NA	3.0	NA
Housewares	40.2	44.4	11.7	11.6	0.8	1.5	33.4	39.5	2.9	1.8	4.4	1.9
Traffic Appliances	24.2	26.0	9.6	7.3	1.5	1.6	15.9	20.9	3.5	2.8	2.4	1.3
Sporting Goods	32.5	44.7	8.6	19.5	2.2	3.6	26.7	34.0	2.4	2.0	3.2	0.6
Sight & Sound[A]	25.4	26.8	9.9	7.8	2.9	1.6	17.4	21.3	3.0	3.2	4.9	3.7
Toys	33.9	43.0	8.0	12.0	1.3	1.9	28.1	36.9	3.5	2.6	5.7	0.5
Stationery/Greeting Cards	43.6	44.8	6.7	7.9	1.1	2.2	39.4	40.2	3.7	2.7	3.0	1.5
Candy	23.1	46.9	5.8	8.3	1.2	2.2	18.1	41.4	8.3	6.0	3.5	0.4
Drugs & Cosmetics[B]	25.5	39.2	5.7	0.9	1.9	1.0	20.3	38.9	4.1	3.2	7.8	6.6

[A] Includes records and tapes. [B] Includes proprietary drugs.

Source: NMRI Operating Results for Self-Service Dept. Stores, 1983-84; NRMA 1984 MOR Report: Merchandising and Operating Results of 1983

Haft Reshapes Book Biz

(Continued from page 54)

stead of high-rent malls, which are often anchored by one of its parents, Thrifty or Dart.

Haft, who visits some stores weekly, and reportedly all units once a year, has said that when he walks into a Crown, he feels like he's in his own livingroom. In fact, he's listed in the Washington telephone book as Robert Crown Haft to avoid confusion with another Robert Haft in the directory. A few years ago, he listed himself as Robert Dart Haft.

He is, clearly, the one and only spokesman for his chain, becoming something of the Frank Perdue of book retailing. Like the Maryland-chicken grower, who became famous for appearing in his own quirky TV commercials, Haft in his TV spots appears in shirt sleeves and vest saying, "Now, you'll never have to pay full price again." A poster of the ad appears in many Crown stores.

This slogan, along with the battle hymn, "Books cost too much," has been the subject of heated debate in the publishing community.

Publishers criticized the way Crown uses their co-op funds to blast away at suggested book retails. Several contacted complain about Crown's habit of returning large quantities of books that were originally ordered to support the co-op advertising—but none would speak for the record.

Crown's competitors are also up in arms, because they feel Crown's slogan is misleading in that, in the case of remainders, Crown charges full publishers' remainder prices, contrary to its promise of "never having to pay full price again."

One executive at a competing discounter book chain said, "His ads make us all sound like a bunch of ripoff artists." Most book chains, including Crown, don't discount their remainder selections.

In fact, the remainder business is what makes heavy discounting of other titles even thinkable but there has been much industry talk that the well might be running dry.

As publishers pull back on new releases, and with the elimination of the ploy of overprinting hardcover titles to jack up paperback rights, the future of Crown and all discount book chains might be in jeopardy, with fewer remainders to sell.

But, most observers feel Haft will persevere. As for his future, industry speculation has him taking Crown private, once and for all, and then there are those who say Robert will again team up with his father and go into some new discounting business—together.

Chains Keep Up Strong Promo Stance

(Continued from page 1)

sales increased in 10 of the 17 highlighted merchandise categories for discounters. But, sales put additional pressure on traffic appliance margins (down from 18.25% to 15.89%); sight and sound (16.99% to 15.90%); candy (19.84% to 18.13%); drug/health & beauty aids (21.28% to 20.32%), and automotive accessories (25.67% to 23.34%).

For department stores, the bottom-line pressure was more intense. Only 4 of 15 categories analyzed finished the year with a healthier bottom line: candy (up from 41.2% to 41.4% of sales); women's dresses (40.6% to 41.8%); women's intimate apparel, robes and sleepwear (50.6% to 51.9%), and toys as cited above.

That discounters had reacted positively to the improved economic environment and built inventories was all-apparent.

Inventory turnover was substantially improved for both groups.

For discounters, stock turns were up in 12 of 17 categories. Nine of 15 department store departments enjoyed increased turnover, compared to the year-earlier period.

Also a sign of an improved economy: stock shortages slowed in 8 out of 17 discounter departments and 4 of 15 department store areas.

Woolworth's 1st Deep-Discount Drug Stores Set

NEW YORK — Woolworth will get back into discounting in March when it opens two deep-discount drug stores in the Philadelphia area.

Three more stores will be opened in 1986 in as yet undesignated locations.

John W. Lynn, the chain's chairman and ceo, said the still-unnamed venture is modeled on other deep-discount drug stores which sell H&BA items in great volume and keep operating costs low.

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Bigger ShopKo Will Replace Older One

GREEN BAY, Wis. — ShopKo will more than double the size of its store in downtown De Pere, following an agreement reached with the De Pere Redevelopment Authority.

A new 67,000-sq.-ft. ShopKo will be built adjacent to the present 33,700-sq.-ft. store. Upon completion of the new store, the older structure will be demolished and replaced by a 275-car ShopKo parking lot.

The new store will cost $4 million, including construction, inventory, fixtures and the parking lot, according to a company spokesman. ShopKo paid $367,000 to the city of De Pere for the land for the new store.

Construction of the store will begin on Aug. 1, 1985, one month after ShopKo takes possession of the parcel of land.

Circuit City to Pay Akron

(Continued from page 3)

ed lease obligations.

Under the terms of the Zodys agreement, Circuit City has the right to terminate the contract on Feb. 28, 1986, by giving Zodys notice in June 1985.

According to industry estimates, those CE departments produced about $100 million, nearly one-third of Zodys' volume last year. Officials from Zodys could not be reached for comment on the potential impact of the Circuit City pullout.

If Circuit City cannot negotiate this "accelerated termination" it "may delay the opening" of the new stores or the chain may operate a limited number of them while continuing to operate in Zodys, the stock prospectus said.

Circuit City currently operates a 150,000-sq.-ft. distribution center in Los Angeles to service the Zodys licensed departments. The company has stated it will maintain its facilities, support staff and a "substantial portion of its department employees" for the California Superstore operations.

Circuit City operates 48 CE and appliance retail locations under the names Circuit City and Circuit City Superstores in the Southeast and the Washington, D.C. area. Another 12 stores operate in the New York Metropolitan Area under the name Lafayette/Circuit City. In addition to the 38 licensed departments in Zodys stores, it operates two other stores in Los Angeles under the Zodys name.

In its most recently completed fiscal year, ended Feb. 28, Circuit City had net earnings of $12,009,000 on sales of $356,708,000. In the six months completed Aug. 31, net earnings totaled $7,477,000 on sales of $202,250,000.

Planned renovation costs of the southern California sites are expected to average $900,000 a store.

Nichols to Spend $30M to Roll Out New Prototype

MENSWEAR
SPORTSWEAR

New fashion mannequins, fixtures and stronger apparel classifications at S. E. Nichols' Hagerstown, Md., prototype are expected to help raise the chain's soft goods sales share to 30% from the current 25%.

(Continued from page 1)

copy us now that they've spent so much to refurbish their stores."

Nichols made this move during a fiscal year in which its 42 stores were 10% ahead of last year's $277 million sales pace, or $85 per square foot (gross space), which lags behind the industry average of $134, according to *DSN* research.

As Nichols adds two units identical to this next year, in Bath and Oneonta, N.Y., and remodels stores into 1987, Brecker expects chain productivity to move closer to his $125 per square foot goal.

Nichols' first remodels will be in Chambersburg, Pa., 28 miles from Hagerstown; Dover, Del., and Utica, N.Y., probably by next spring, said Brecker. He projected the chain would retrofit as many as five stores in 1985, and 12 to 15 apiece in 1986 and 1987.

Nichols, which operated stores in three separate formats until now, will be remodeled in sweeps of each format at a time for greater speed, Brecker explained.

Also, by renovating all stores and bowing new units in the new mold, Nichols expects to catch up to other discounters who've already raised their soft goods share of sales. Brecker projected that Nichols' apparel and domestics sales share could rise from a current 25% level to 30% "by sheer impact of presentation," and listed new stylized dove gray mannequins, red carpeting and black and yellow tubular fixtures as fashion elements that could contribute to the gain.

Store changes, designed with Atlanta-based Miller/Zell at a remodeling cost of $750,000 to $800,000 per unit, include a race track aisle, improved adjacencies, varied height fixtures and striking use of color and signage to strengthen department classifications. "We've now raised presentation levels to match our merchandise," Brecker declared.

He revealed that Hagerstown's product mix and pricing are identical to the rest of the chain, and noted that this site—Nichols' fifth within a 100-mile expanse—significantly improves advertising efficiencies here. The store co-anchors a strip center one mile from a refurbished K mart and three miles from a Zayre, but more than 20 miles from the nearest Nichols to avert sales cannibalization, Brecker said.

Nichols introduced its first shop concepts here, including the 60- x 40-ft. awning-covered Corner Store, made up of the chain's first snack bar, plus candy, tobacco, sweets and sundries displays. "We sought a hometown feeling. Every hometown has a corner store," said Bill Yonke, director of store planning and visual merchandising.

Here also are two life-size painted mimes on the wall, which greet shoppers and help set a somewhat whimsical tone for what's ahead in other parts of the store.

That includes other shops, such as:

- Horticulture, where a red grillwork gazebo, framed in white, is the visual focal point.
- Home Lifestyles, where furniture, lamps, mirrors and clocks are displayed under a massive 4- x 30-ft., backlit, canvas sign.
- Housewares, where the overhead sign, bordered by photos of products in use and their brand names, reads "house" in script and "wares" in a stylized block lettering common to most signs throughout the store. The department is segmented into separate tabletop, cookware, traffic appliances, plastics and cleaning/chemicals areas and is filled with feature tables.

Across the aisle, giftware displays are on etageres rather than gondolas, and silk flowers surrounded by white open gridwork are the visual focal point.

- The Kids Store, where boys', girls', infants' wear and accessories displays are on yellow chrome fixtures and elevated platforms. Fingerwalls and overhead 4- x 4-ft., backlit transparencies showing children of different ages help further classify the merchandise.

Moreover, in the girls' department, a ceiling-high cluster of 48 balloons hangs above a pup tent-shaped umbrella imprinted with "girls" and a likeness of the balloons. Kites and umbrella fixtures achieve similar effects in the boys' department.

Women's wear exhibits little whimsy, although its fashion tone is set by a pair of stylized dove gray mannequins to action poses by the main aisle. Black T-frame fixtures better divide hosiery, robes and undergarments. A flamingo pink neon sign delineates intimate apparel.

One dramatic visual occurs in sporting goods, where a torso mannequin lifting barbells emerges from the wall above displays of exercise equipment.

The store's eclectic look is unified in several ways, said chain spokesmen:

- All signs are in a stylized block lettering with laser-thin horizontal lines cutting through.
- All fingerwalls have lifestyle photos and store propositions on them, such as "It's style" or "That's value" or "Our promise to you."
- Pricing cards, patterned after the ones used by Sears, measure 7 x 11 in. and have 2½-in.-high numbers.

Nichols developed the store after conducting marketing research a year ago. Findings showed the chain needed massive presentation improvements for it to capture 18- to 24-year-olds and shopping families earning more than $35,000 annually. "If we're correct," said Brecker, "we'll satisfy both ends of the spectrum, young and moneyed customers, and our middle-class shopping base."

The Hagerstown store, drawing for 15 miles, met chain officials' expectations as it scored Nichols' biggest opening week ever, Brecker said, without revealing the take. That may have been due in part to a good-humored newspaper campaign in the market begun 12 days before the opening. "Will Nichols Make It? Yes or No?" days later became "Yes We Will. Come and Watch Us."

Nichols sought to take advantage of the store opening in chainwide advertising plans by dropping a weekly chainwide flyer and pushing its Thanksgiving book ahead by a week, said Brecker.

The store is also testing new computerized surveillance and energy management systems, and a seamless fabric exterior store sign that's supposed to resist breakage.

High-Tech Security Devices Get Play

(Continued from page 3)

of the most effective ways to combat theft. A total of 13% of retailers who used the monitors judged it to be most effective, a 6% increase over the previous year. The feeling was especially evident among mass merchandisers who have installed TV surveillance, as 17% of mass retailers said it was the most effective deterrent, a 10% increase from 1982's results.

Interestingly, polygraph or lie detector tests, a long-debated issue in the industry, were used by about two-thirds of correspondents but only 5% of those polled indicated it was an effective shrinkage preventative.

Despite the apparent failure of polygraphs to produce results, retailers agreed they should implement better screening techniques for new personnel and increase employee awareness by offering rewards to help them control pilferage.

A Closer Look

According to the report, employees still account for the greatest share, 44%, of total shrinkage. Retailers attributed 30% of total shrink to shoplifting and 22% to poor paperwork control. Although employee theft appears to have declined from last year when it accounted for 50% of total shrinkage, Cook attributed the 6% decrease more to a change in the questionnaire. In this year's survey, retailers were asked to evaluate the scope of vendor theft separately, which accounted for 4% of total shrink. In the past, it had been included in the employee theft figure.

Retailers polled said 40% of employee theft occurred at POS and 22% occurred on the selling floor rather than in the stockroom or warehouse areas.

Merchants are also becoming more aggressive in following through on shrink control policies. Prosecutions, as a percentage of apprehensions, increased to 63% and were highest at the mass merchandising level with a 65% prosecution rate. Department stores prosecute 55% of those apprehended and specialty stores, 42%. Convictions stayed the same from the year before, a 93% rate.

Overall, 72% of all apprehensions were attributed to customer shoplifting.

Ironically, retailers identified the majority of those apprehended as their No. 1 target customer, the young adult, 18-35, age group.

Young adults also accounted for the lion's share of employee apprehensions, which directly corresponds to the greater number of young adults in the retailing workforce today.

More than two-thirds of all employees apprehended were cashiers and selling floor personnel. For department stores, 59% of the apprehensions involved selling floor personnel; mass merchandisers reported only 22% in that employee group.

Lionel Eyes Green Light

(Continued from page 2)

based investment holding company and leveraged buyout specialist. The offer is subject to several conditions which neither company would comment on.

Meanwhile, Lionel continued to score healthy gains through the third quarter. Sales for the quarter were $76,056,000 compared to $57,708,000 for the same period last year. For the nine months, sales were $209,901,000 vs. $158,890,000 for the corresponding period in 1983.

Net income for the third quarter was $1,520,000 compared to last year's net loss of $3,038,000. For the nine month period, Lionel's net income was $6,219,000 compared to a net loss in the same period of 1983 of $7,551,000.

During the third quarter, Lionel, which currently operates 53 toy supermarkets, opened a new unit in Baltimore, which replaced an older store in the same market.

Skydivers Enliven Jamesway Bows

SECAUCUS, N.J. — Jamesway opened its 84th and 85th stores in Bethlehem and Whitehall, Pa., marking the events with skydiver shows.

The parachutists scattered tokens to the crowd as they descended onto the store's roofs. The tokens were redeemable for various prizes, the most valuable of which was a television.

Both of the 60,000-sq.-ft. units were formerly Two Guys stores. Each remodeled store is estimated to employ between 75 and 100 people.

Service Mdse. in Deal?

(Continued from page 3)

showrooms by using a format that has most nonjewelry categories displayed in a sample-only presentation in glass showcases, with jewelry a salesclerk-serviced area.

The mini-showrooms are spotted as satellites to larger, 50,000-sq.-ft. stores, in which most nonjewelry categories are self-service, mass display areas.

The Philadelphia-based chain reportedly being eyed by Service Merchandise has showrooms in the 50,000-sq.-ft. range.

The four acquired Towers has raised Service Merchandise's showroom count to 182 units, with 23 having been opened this year. Six are already set for 1985.

A total of 12 Mr. HOW Warehouse stores are due by the end of the year, with another dozen already planned for 1985. The cataloger went into the warehouse home center field last year when it acquired the first Mr. HOW Warehouse, then called HomeOwners Warehouse.

Heck's Switches To Red For Qtr.

NITRO, W. Va. — Heck's posted a net loss of $1.8 million for the third quarter, ended Sept. 30, 1984, compared to a $2.8 million profit during the same period last year.

The loss, said Heck's, was due to costs incurred during this year's store remodeling program which involved 105 of Heck's 125 units, and to write-downs on discontinued merchandise eliminated as a result of this program.

For the four weeks ended Oct. 27, 1984, sales rose 2.6% to $36.5 million from $35.5 million for the similar period of 1983.

Toy Chain Census: Pp. 18-36

Spring Car Care Buy-in: Pp. 47-59

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Electronic 'Retailers' Are Here—to Stay?

By ARTHUR MARKOWITZ
Special Projects Editor

Forty-one of them are already out there, selling goods to consumers without merchandise or sales clerks—and hundreds more are on the way.

What are they?

Machines that herald the coming of age of electronic retailing in such places as stores and malls.

These machines are computer controlled, use laser videodisks to show merchandise on TV monitors and provide touch-screen selection and ordering of goods; they mean that the technical aspects of electronic retailing have been conquered.

The key questions still have to be answered: whether consumers are ready to shop this way—and in large enough numbers to generate the volume needed to make this type of retailing viable.

The answers could start to come this year.

Four companies have recently announced or begun testing electronic retailing systems. Forty-one machines from three of these firms are already in place in malls and retail stores and more are due to go into service in the next few months.

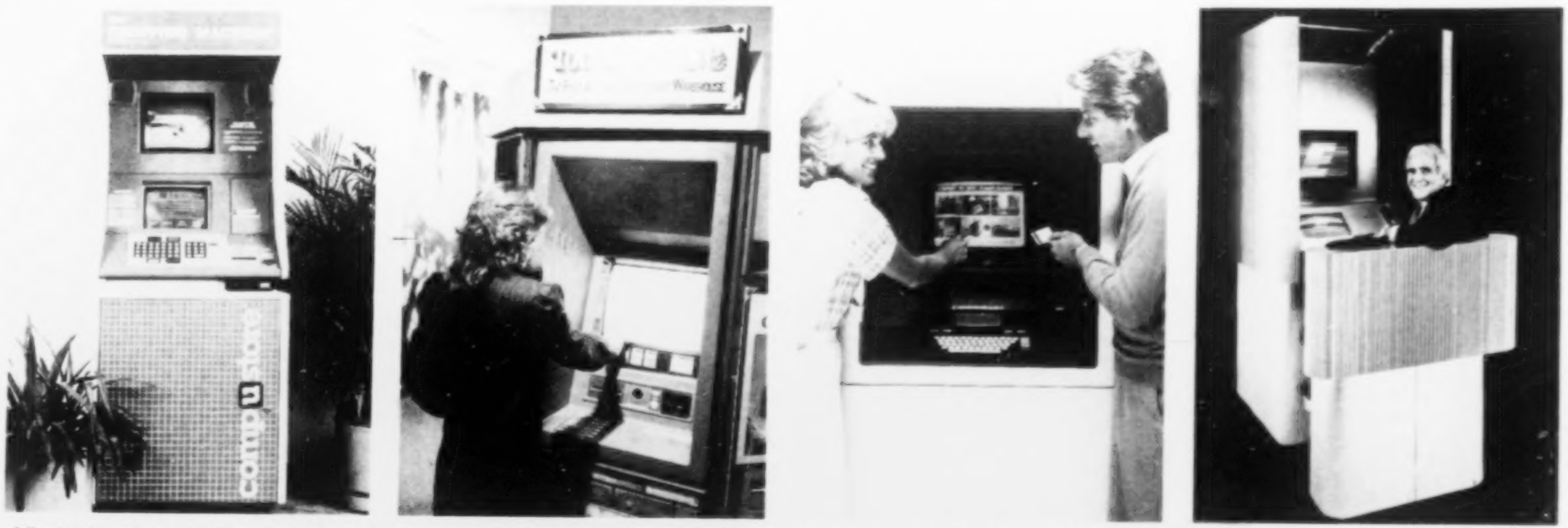
These machines, in the form of freestanding kiosks located in such places as stores and malls, comprise the on-site, interactive segment of the electronic retailing field. The other segment is at-home shopping via computers (and will be covered in a future issue of *DSN*).

As a whole, electronic retailing is expected to account for 6% to 20% of total retail sales by 1990, depending on the prognosticator. On-site, interactive systems are seen as the fastest growing area.

The four companies currently pioneering this segment are Comp-U-Card with its The Shopping Machine; CompuSave and its Touch-n-Save unit (both of which fulfill orders for merchandise "stocked" by the machines at discount prices); By-Video's UniPort and R. R. Donnelley & Sons' Electronicstore (both of which supply just machines and operating programs to retailers).

The Shopping Machine is now being tested in a one-year pilot program in a dozen stores. Ad-

(Continued on page 71)



All electronic retailing machines include a TV monitor to show merchandise, and a keyboard to order goods; their "faces" differ. The machines (l. to r.) are The Shopping Machine, Touch-n-Save, UniPort and Electronistore, which is being offered with or without the seat.

Caldor's Guinan Picked Challenge Over Glamour

By KAREN PAXTON

NORWALK, Conn. — Jim Guinan chose challenge over glamour.

The challenge of computerizing the Caldor chain and achieving Associated Dry Goods' goal to double the size and volume of its discount division to 200 units and $2 billion in six years prompted Guinan to give up the glamorous post of president at Bloomingdale's and return to the discounting realm after a six-month hiatus.

"I probably didn't realize how much I was going to miss mass merchandising," said Caldor's three-month chair-

(Continued on page 71)

"I'm doing some general tinkering with the systems and operations . . . giving them the computer aids they need and adding an expert here and an expert there, all in preparation for that $2 billion, 200 stores."

—Jim Guinan, chairman and ceo, Caldor.

CD (U.S.), in Getting Purdy, Strengthens Competitive Clout

EDISON, N.J. — Everett Purdy's appointment to head Consumers Distributing (U.S.) has markedly strengthened the company's competitive position via its two main rival catalogers, Service Merchandise and Best Products.

CD (U.S.), a division of Consumers Distributing (Canada), has centered its 160-store operations on the East Coast in an arc from Boston south to Philadelphia and west to Albany, N.Y., with the main concentration in the Greater New York Area and in the metro Los Angeles and San Francisco markets on the West Coast.

CD squares off against Service Merchandise in all its markets and against Best in the two West Coast areas and in Philadelphia. Best and Service Merchandise are the catalog industry's top chains in volume, with CD (U.S.) No. 4.

CD (U.S.) tests warehouse closeout store. Story, p. 11.

Trade observers noted that Purdy's 12 years with Service Merchandise, where he had

(Continued on page 72)

IN BRIEF

- **ATARI'S INTRODUCTION of two new lines of personal computers aimed directly at the mass market—the XE and ST series—was met with much enthusiasm by buyers at the winter CES. The 65 XE will retail for under $120 and the 130 ST will carry a price tag of under $400. However, several chain buyers are concerned about Atari's ability to deliver in quantity. Several buyers also noted the emergence of Korean manufacturers as significant in the VCR and TV areas.**

15 Retailers to Spend at Least $500G To Lobby For Repeal of Texas Blue Law

DALLAS — A group of 15 retailers is planning to spend at least half a million dollars to lobby for repeal of Texas's Blue Law, which prohibits stores from selling certain items on consecutive Saturdays and Sundays.

The retail coalition, called Texans for Blue Repeal, includes such chains as Target, K mart, Revco drug stores, Kroger, Toys "R" Us, Walgreens and Zale. At presstime the group had raised about $350,000 and hired lobbyists Galt Graydon and Dick Brown to work at the Texas legislative session that started Jan. 8, said George Hite, vp of public and consumer affairs at Target.

Although there have been efforts to get the law off the books in the past, "retailers have never hired somebody and have not had well-financed efforts [in Texas]," explained Graydon. In lobbying, Graydon is planning to use a recent poll done at Texas A&M University—which shows that Texans prefer sev-

(Continued on page 72)

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Digest

Jan. 21, 1985

TOY CHAIN CENSUS

- **Toy chains are expected to boost their market share in 1985** from the one-third they had in 1984. *DSN*'s annual toy chain census (pp. 18-36) gives a rundown of the expansion plans of leading chains. Industry executives eye strong sellers for '85 (p. 18).

SPRING CAR CARE BUY-IN

- **New automotive merchandising trends are described in this issue's** spring car care buy-in section (pp. 47-59). Among them: Caldor and Bradlees set up single-manufacturer runs (p. 47); truck-accessory displays are segregated to capitalize on the booming light-truck business (p. 47); T.G. & Y. pares sku's and replanograms waxes and polishes (p. 48).

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Discounters, Old-Liners Hoisted Pretax Net in Last Fiscal Year

NEW YORK — Discounters and conventional department stores shared a resurgence in pretax earnings their last completed fiscal year, thanks to lower operating expenses, reduced inflation and greater consumer spending.

Both retailing classes fared about the same on two major counts:

—Discounter pretax earnings climbed nearly half from 2.94% of sales to 4.34%, compared with department stores' rise of slightly more than half, from 4.01% to 6.16%.

—Net operating expenses at discounters dipped from 24.78% of sales to 23.70%, compared with department stores' 37.30% to 35.21% improvement. That was the lowest expense ratio for discounters in five years.

Discount and department store chains pared costs in many areas to produce these improved ratios.

Most significantly, discounters cut payroll from 12.06% of sales to 11.41%; department stores sliced even more, from 19.60% to 18.06%. Department stores also cut benefits costs from 3.80% to 3.01%, better than discounters who raised their ratio from 1.96% to 2.32%.

Discounters also channeled a smaller share to advertising and sales promotion in fiscal 1983-84, 2.23% of sales compared with 2.43% the prior year. Department stores trimmed more, from 3.81% to 3.33%.

Equipment rentals by discounters dropped from 0.45% of sales to 0.38%, while rising at department stores from 0.35% to 0.41%.

Discounters also spent less on travel, 0.21% of sales compared with 0.24% the year earlier. At department stores, travel expense rose marginally from 0.30% of sales to 0.31%.

Financial comparisons of discounters and department stores are drawn from two industry reports: One, the National Mass Retailing Institute's (NMRI) annual study, "Operating Results of Self-Service Discount Department Stores, 1983-84," reflects performance of 30 chains, whose 2,892 stores produced aggregate sales of $17 billion during the fiscal year ended March 31, 1984.

The other, the National Retail Merchants Association's (NRMA) annual study, "Financial and Operating Results of Department and Specialty

(Continued on page 72)

Gross Margin, Expense and Earnings
(As % of Sales)

Factor	Full-Line Discounters 1983/84[a]	Department Stores 1983
Gross Margin	28.31%	39.88%
Total Expense	23.72	35.21[b]
Net Operating Profit	5.08	4.67
Other Income	0.54	1.49
Earnings Before Taxes	4.34	6.16
Federal/State Income Taxes	2.09	2.33
Net Earnings After Tax	2.27	3.83

[a]April 1, 1983 to March 31, 1984 period. [b]Net Operating expenses. Sources: NMRI, NRMA.

Expense Analysis Highlights
(As % of Sales)

Expense	Full-Line Discounters 1983/84[a]	Department Stores 1983
Payroll	11.41%	18.06%
Supplies	0.76	1.99
Communications	0.27	0.69
Travel	0.21	0.31
Services Purchased	0.60	2.23
Advertising	2.55	2.48
Taxes & Licenses	1.51	2.33[b]
Utilities	1.17	1.42
Insurance	0.67	1.19
Equipment Rentals	0.38	0.41
Property Rentals	1.92	2.84
Depreciation & Amortization	1.01	1.09[c]
Repair & Maintenance	0.65	0.07
Unitemized	0.59	0.10
Net Operating Expenses	23.70	35.21

[a]April 1, 1983 to March 31, 1984 period. [b]Taxes only. [c]Depreciation only. Sources: NMRI, NRMA.

Three PACEs to Open Near Capital by Spring

DENVER — PACE Membership Warehouse's entry into Baltimore-Washington and additional southeastern markets is another sign of maturation in the quickly aging warehouse club field: more head-to-head confrontations and moves into small markets.

PACE, a six-unit chain headquartered here, will spend $25 million of internally generated funds to open three 100,000-sq.-ft. stores near the nation's capital by spring. Founder and president Henry W. Haimsohn projects they'll produce $100 million in combined first-year revenues, and maintain the chain's 8%-9% gross margins to wholesale members.

Clustering stores will enable PACE to buy better and improve its chainwide rate of 15 turns overall by splitting truckloads and shifting merchandise among stores, Haimsohn said.

He'll implement that strategy in Atlanta, too, where construction started this month on second and third units to compete against warehouse operator Makro; in Denver, where PACE opened its second warehouse in November and plans a third this year to battle Buyer's Club; in Tampa-St. Petersburg, where PACE's two units confront Costco's two, and in North Carolina, where PACE slates 1985 openings in Greensboro and Raleigh to augment its Charlotte warehouse.

Haimsohn is also scheduling a Jacksonville, Fla., entry this year, where he'll compete against Sam's Wholesale Club. He also plans single-store openings in smaller markets such as Omaha, Des Moines, Iowa and Colorado Springs, Colo.—with the latter market having a populace of just 400,000.

Haimsohn expects to triple store count from six to 18 and expand sales from $80 million in 1984 to more than $300 million by year's end.

In Baltimore-Washington, PACE will battle Makro for sales to high-volume wholesale members, though it'll have a clear path to Government employees, who'll account for most of PACE's higher-margin retail volume, Haimsohn said. Makro sells only to wholesale members; PACE, like most warehouse operators, also sells to qualified individuals at 5% above posted prices.

Haimsohn, a former home center chain sales vp, said he's now staffing a regional office to manage the Baltimore-Washington stores and buy goods locally—particularly consumables, which account for one-third of floor space.

Forman, Executive Editor of *NRN*, Is Named Managing Editor of *DSN*

NEW YORK — Charles Forman has been named managing editor of *Discount Store News*.

Forman

In this post he will supervise day-to-day activities of the publication's editorial staff and assist with other managerial responsibilities. He will report to chief editor Iris Rosenberg.

Prior to joining *Discount Store News*, Forman was executive editor of *Nation's Restaurant News*, published by *DSN*'s parent, Lebhar-Friedman Inc. His duties were similar to those he will have in his new position.

Forman joined Lebhar-Friedman in February 1981 after five years with Harcourt Brace Jovanovich Publications in New York. There he was in charge of editorial operations for a group of four monthly business papers in the dental field.

Forman also was associate editor of *Rubber Age* magazine (now *Modern Elastomers*) and assistant editor of the *Journal of the American Water Works Association*.

Test Your Knowledge of Current Events

Discount Store News QUIZ

The *DSN* Quiz, testing your knowledge of news and trends in discount retailing, will appear on this page monthly. Check your answers with the key on p 72.

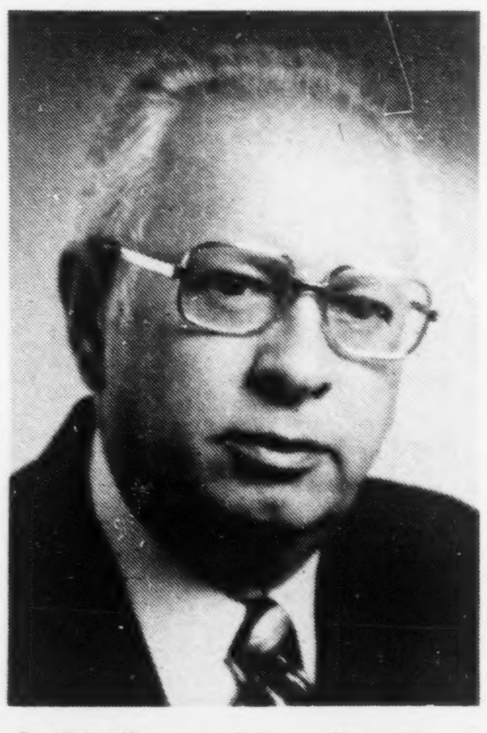
1. K mart's Waldenbooks opened its long-awaited discount book store chain. The name used for this operation is:
   a) Thoreau;
   b) Reader's Market;
   c) Book Mark;
   d) Remainders.

2. The sixth annual National Mass Retailing Institute study of security and shrinkage included participants' ranking of various security devices. Rated the most effective were:
   a) concealed TV monitors;
   b) observation booths;
   c) guards;
   d) electronic tags.

3. S. E. Nichols unveiled its new store of the 90's in Hagerstown, Md. How much will the discounter spend to install the new look in all of its stores over the next three years?
   a) $30 million;
   b) $40 million;
   c) $50 million;
   d) No plan yet while it waits to see how the prototype performs.

4. New consumer electronics technology, often identified just by the letters of the technical method, is surplanting older home entertainment systems. The correct matching of a traditional entertainment system and the related new technology is:
   a) home movies—BTS;
   b) television—POS;
   c) records and tapes—CD;
   d) radio—POP.

5. K mart restructured its operations and in the process promoted a long-time executive to the new post of president of the K mart stores group. He is:
   a) Norman G. Milley;
   b) Stephen L. Pistner;
   c) John R. Thomas;
   d) Frederick M. Stevens.


Is this the man heading the K mart stores group? See question 5.

6. "We buy a one-shot deal all the time," is how Arthur Frankel summed up the business of his retailer, Pic 'N' Save. The company is:
   a) a discounter;
   b) an apparel specialty chain;
   c) a catalog showroom;
   d) a closeout retailer.

7. Ann & Hope is providing a unique service for workers at its Watertown, Mass., store. The service is:
   a) car pooling;
   b) family financial planning;
   c) day-care center;
   d) gym.

8. Charles Lazarus, chairman of Toys "R" Us, also sits on the board of:
   a) Cole National;
   b) Petrie Stores;
   c) K mart;
   d) Wal-Mart.

9. Lafayette/Circuit City is being sued by another consumer electronics specialty chain because its ads say consumers have to be __________ to shop anywhere else:
   a) rich;
   b) poor;
   c) uninformed;
   d) crazy.

10. Mars plans to acquire one of the last family-owned pioneering discounters. Identify the company.
   a) Mals;
   b) S. Klein;
   c) Gaynes;
   d) Barkers.

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Vol. 24, No. 2 Jan. 21, 1985

TOY CHAIN CENSUS

Bigger Market Share Is Seen For Toy Chains

Nationwide DSN Report

For toy specialty retailers, 1985 promises to be another bountiful year despite a disappointing Christmas performance.

Many toy chains fell short of sales expectations for the holiday selling season, mainly due to poor video game and home computer sales and a VCR explosion that drained dollars from the seasonal toy rush, but the year was far from a catastrophe.

In fact, according to industry projections, toy specialty retailers accounted for approximately one-third of all toy sales in 1984 and that share is expected to grow in 1985 and balloon in the next five years.

With department stores and mass merchandisers like Sears, Penney and Ward de-emphasizing the category or merely expanding seasonal areas to accommodate toys for Christmas, the $8.3 billion toy segment appears to be ripe for the taking.

While discounters currently own 29% of the toy market, according to industry estimates, many observers feel the toy chains, with their year-round sales philosophy, could account for close to 50% of toy sales before the year 2000.

Toy specialty chains accounted for one-third of total toy sales last year. Mall stores including Kay Bee, seen here in Los Angeles, did over one-half billion dollars and are expected to increase their share in 1985.

Indeed, industry analysts expect the three leading toy chains, Toys "R" Us (TRU) and Child World in the supermarket segment, and mall leader Kay Bee Toys and Hobby, to own 35% of all toy sales by 1988.

TRU alone has increased its market share 1½ percentage points in each of the last five years and currently accounts for almost 14% of all United States toy sales. Industry analysts feel the chain will own 25% of total toy sales within the next five years.

Although the toy giant experienced a disappointing Christmas, which caused its stock to plummet almost $8 on the New York Stock Exchange in the final days of 1984, sales for the 11-month period were $1.59 billion, up 28.5% over sales of $1.24 billion posted for the same period in 1983. In 1985, the chain is expected to move in on the $2 billion sales mark.

However, this past Christmas, TRU only saw a 3% gain on comparable-store sales, far below its undisclosed projections. Company executives attributed the modest gain to a significant decrease in video game and home computer sales, which dropped about 9%.

The mediocre Christmas results will certainly not dampen TRU's methodical expansion push, both domestic and worldwide. Currently entrenched in 27 states with 203 units, TRU will open up to 45 new stores this year including a new market entry in the Buffalo-Rochester area. The chain will also increase its presence in Canada, where it debuted in the last quarter of 1984, and will, for the first time, open its doors in England.

In addition, Kids "R" Us, its 10-unit off-price children's clothing chain, is slated to open 15 to 20 new stores this year and according to industry analysts, will finish in the black for the first time in 1985.

Child World, TRU's chief toy supermarket competitor, has set a more modest expansion plan for '85, according to chain president John Chase. The 104-unit chain will open 16 new stores this year (14 were opened last year) and Chase expects 1984 sales to top $450 mil-

(Continued on page 28)

Chain, Manufacturer Execs View Trends

Bright '85 Projected For New and Old Hot Products

Larry Stern
Executive vp, merchandising,
Circus World, Taylor, Mich.

"We'll be shopping Toy Fair for a good mix of everyday toys so we can maintain profit levels. Promotions of really popular toys drove margins down in 1984.

"We feel robots will be very good this year, and we expect demand for Cabbage Patch to continue. Action figures are hot; they put kids into [an active] play environment.

"Galoob is coming out with girls' action figures called Golden Gals; Mattel has She-Ra, female Masters of the Universe, and Coleco is coming out with a male action figure line we think should be good.

"We're also interested in Hasbro's physical fitness [tapes and equipment] for girls.

"Licensing should also do well this year. We feel good about the Wuzzles [plush animals] from Hasbro/Disney and Hug-a-Bunch, an American Greetings license."

•

Robert Grey
Executive vice president,
Karl's Toys, Los Angeles

"We expanded our better doll assortment this year. We carried Madame Alexander, Effenbee, Royal and we added dolls from around the world: Vaph and Gotz from Germany, Barel from Spain, Z & Z from Italy.

"In robots, not only did we carry products from Hasbro and Tonka, we also brought in numerous lines direct from Japan that no one else had. We sold robots for about $25 but also for $40, $60, $80 and $100. We had 12 running feet of different robotic products.

"There's no way an independent chain can succeed on just price.

"We expect 1985 to be another good year, maybe not to the same extreme standard. But, it's a little early for us to make predictions. We're out there learning. Now's the time to look and listen."

•

Kenneth Perry Jr.
Vice president,
K & K Toys, Virginia Beach, Va.

"We're going to Toy Fair with a wide-open mind. We think 1985 will be even stronger. [We find that] with the hype of some of the hot toy items today, people are going into toy stores even more than they did in the past.

"Christmas was very good for us."

•

Richard Selchow
President,
Selchow & Righter,
Bayshore, L.I.

"We feel we did very well this Christmas. Our Trivial Pursuit line was outstanding. We manufactured over 20 million games, and sold just under [that amount]. We're looking for Trivial Pursuit to be just as good as 1984, although you have to be realistic. It has to remain at the same level or a little less.

"For 1985, we have Genus II which will debut at Toy Fair and a [Trivial Pursuit] Young Players addition which will be ready for delivery [this month]. In the spring we'll have a musical edition, RPM. It's going to be the history of music.

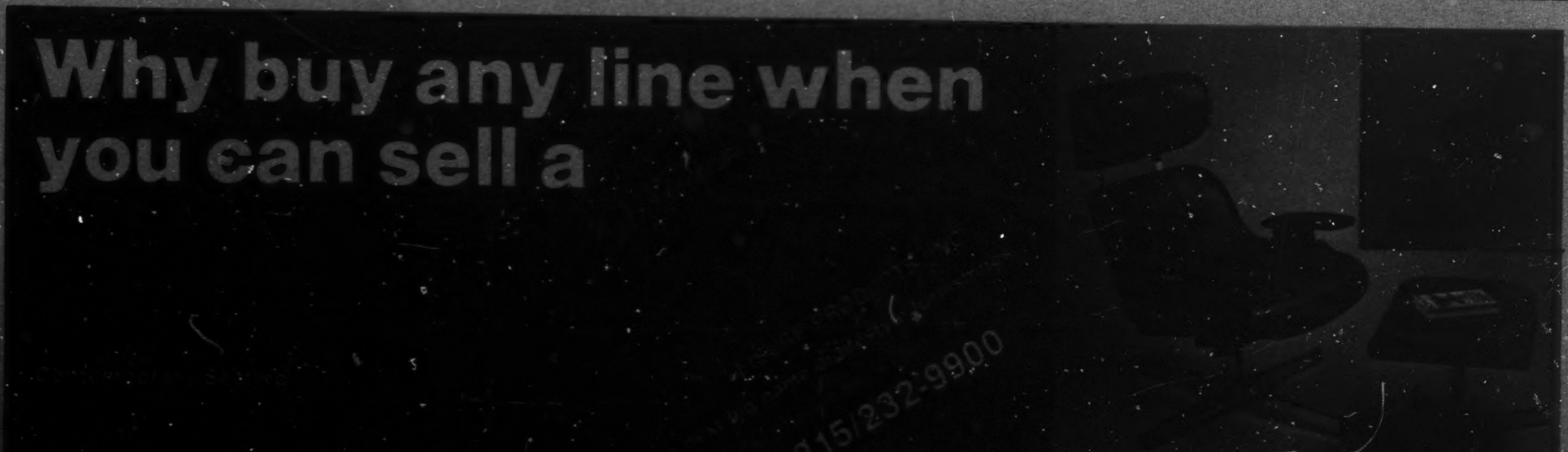
"Trivial Pursuit is in its infancy, and we think it will become a staple, although of course it will taper off some."

•

Alfred Kahn
Executive vice president and head of Coleco's toy division, West Hartford, Conn.

"We'll be adding extensions to many of our lines this year. We'll strive for additional mar-

(Continued on page 30)



Toy Chains Make Gains

(Continued from page 18)

lion, up from $360 million in 1983.

However, because Child World's parent company, Cole National, was recently taken private in a leveraged buyout deal, many industry observers question how the company will be able to fuel the toy chain's growth. Child World accounts for over 50% of the company's total sales.

The Avon, Mass.-based toy chain, like TRU, also had a somewhat disappointing Christmas, according to Chase. Industry observers said Child World might have been hurt even more than other toy chains because of a strong commitment to its electronics area.

"Two days before Christmas, I walked into a Child World and the electronic center was like a morgue," said an executive at a rival toy chain.

Meanwhile, Lionel, the third largest toy supermarket retailer, and most of the mall-situated toy chains reported strong Christmas performances and executives feel it's no coincidence their particular chains do not carry a heavy electronics assortment.

"We never made a huge commitment to electronics. There was always tremendous competition in the area and it was very difficult to make any profit," said Michael J. Vastola, chairman and chief executive officer for Lionel.

Lionel, still tangled in Chapter 11, had a strong sales year, according to Vastola, and although year-end sales figures were not in at presstime, Vastola said the chain had double-digit gains for 1984. In 1983, Lionel had sales of $198 million.

This year, Lionel will open six new stores, the first real expansion move in the last three years. At its peak, the chain had 105 toy supermarkets in operation but was eventually forced to shut down over half, to its current 53.

The chain's test of children's apparel in 11 of its stores last year was successful, according to Vastola, but was a very small percentage of overall sales and its future is currently being discussed.

If the toy supermarket segment is planning moderate growth, mall-situated toy chains appear to be more ambitious. Seven of *DSN*'s top 10 toy retailers are in malls and accounted for a half-billion dollars in sales in 1984.

Kay Bee, the mall leader, with 535 units nationwide will cross the $300 million mark for 1984 and add another 50 stores this year. Circus World, its closest mall competitor, will go over the 200-unit mark this year. But, perhaps the most ambitious plans are being made by Greenman Brother's Playland chain.

Since it was acquired in 1982, Playland, based in Valdosta, Ga., has grown from 31 units to 59. It will open 40 more stores this year and an additional 40 in 1986, transforming the chain from a regional to a national operation.

Other regional toy retailers like Karl's Toys on the West Coast and K & K in the Southeast are also tightening their grips on their respective strongholds.

Karl's Toys, servicing most of southern California, saw approximately a 37% sales gain last year with a 20% increase in December, according to Robert Grey, executive vice president.

"The growth came from three factors. We evolved into a higher price-point product mix. We also changed the methodology of how we sold product, and finally, we had a stronger economic climate," he said.

The chain, currently with 20 units, will open up to five new stores this year and Grey, like many of his competitors, feels the key to success is a year-round posture.

"We made a concentrated effort to make other periods of time a profit base on their own. We ran promotions without sales. We don't believe in giving merchandise away. We had a significant profit increase and we did better in the first nine months [in terms of profit] than we did in the last quarter," explained Grey.

At presstime, K & K Toys, 87 units strong in 15 states, primarily in the Southeast, had not released its 1984 sales figures or 1985 expansion plans.

The chain is continuing its push into factory outlet malls, where it can duck the flow of competition, opting instead for cheaper rents and offering largely closeout goods with margins approaching 50%. The firm operated three units under the K & K outlet name, ranging in size from 3,500 to 4,000 sq. ft., in North and South Carolina.

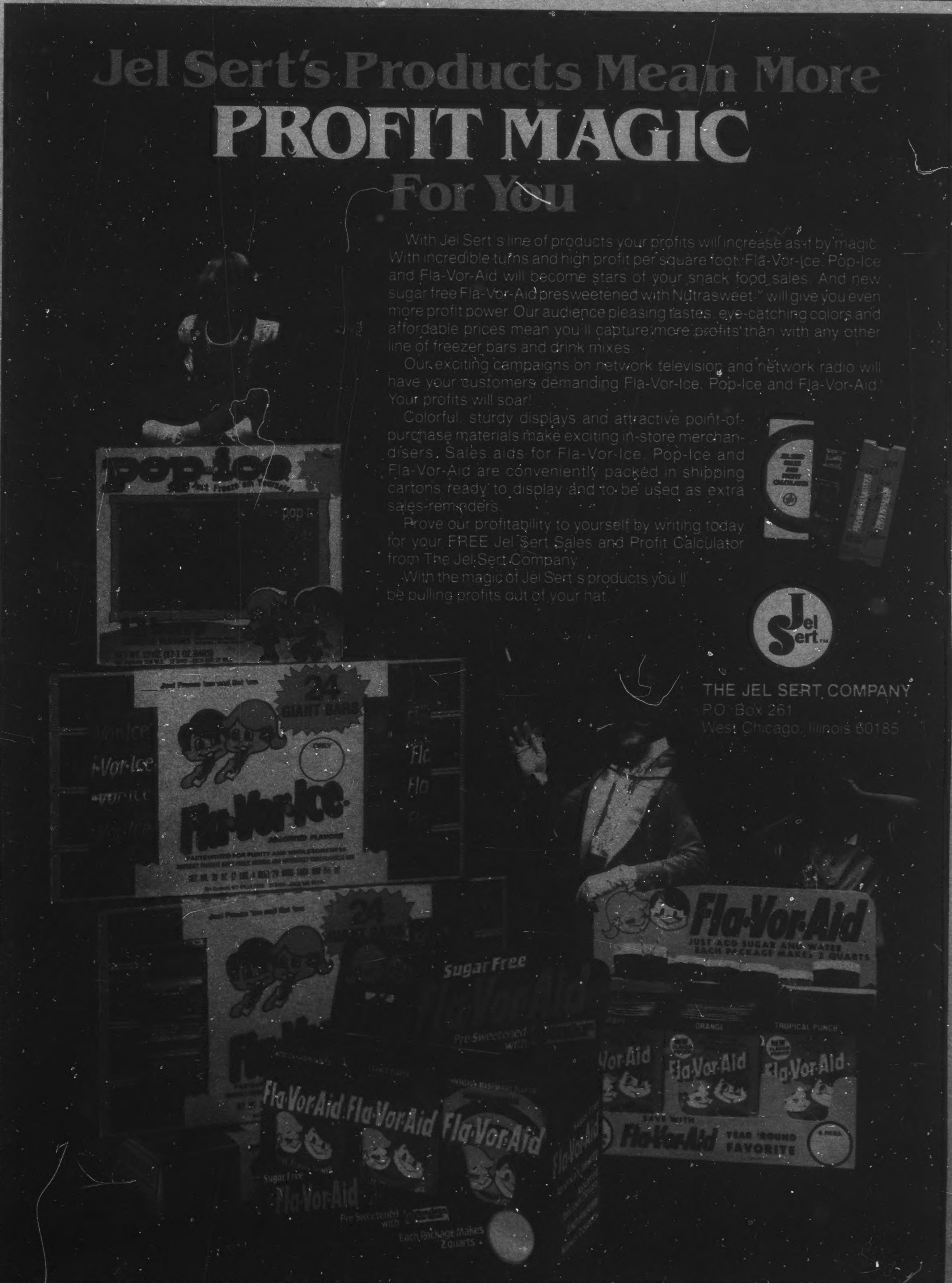
Toy King, based in Orlando, Fla., is currently leading the off-price toy field, operating 40 Toys and Gifts Outlets in Tennessee, Kentucky, North and South Carolina, Oklahoma, Florida and Texas. The chain is pouring all its energies into the outlet concept and has not opened a Toy King mall store in the past three years. Its 1985 expansion plans or 1984 sales figures were not disclosed at presstime.

Many Toy Chains Plan Big Expansion

Chain (Hq. State)	Projected Fiscal 1984 Sales (millions)	Number of Units 1/84	1/85	1/86	Avg. Store Size (Sq. Ft.)
Toys "R" Us (N.J.)	$1,650	169	199	233	25,000
Child World (Mass.)	450	90	104	120	25,000
Kay Bee (Mass.)	325	456	516	566	3,500
Lionel Leisure (Pa.)	225	53	54	60	25,000
Circus World (Mich.)	83	180	190	220	3,500
Playland (N.Y.)	40	46	59	99	3,000
K & K Toys (Va.)	33	69	87	97	3,200
Toy King/Toys and Gifts Outlets (Fla.)	30	65	83	N.A.	2,500
Karl's Toys (Calif.)	18	20	23	26	6,000
Hobby Center (Ohio)	11	27	N.A.	N.A.	3,000

N.A.—Not available.

Source: DSN research.



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